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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INCOME STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	2014	2013	2012
Revenue	\$ 86,833	\$ 77,849	\$ 73,723
Cost of revenue	26,934	20,249	17,530
Gross margin	59,899	57,600	56,193
Research and development	11,381	10,411	9,811
Sales and marketing	15,811	15,276	13,857
General and administrative	4,821	5,149	4,569
Goodwill impairment	0	0	6,193
Integration and restructuring	127	0	0
Operating income	27,759	26,764	21,763
Other income, net	61	288	504
Income before income taxes	27,820	27,052	22,267
Provision for income taxes	5,746	5,189	5,289
Net income	\$ 22,074	\$ 21,863	\$ 16,978
Earnings per share:			
Basic	\$ 2.66	\$ 2.61	\$ 2.02
Diluted	\$ 2.63	\$ 2.58	\$ 2.00
Weighted average shares outstanding:			
Basic	8,299	8,375	8,396
Diluted	8,399	8,470	8,506
Cash dividends declared per common share	\$ 1.12	\$ 0.92	\$ 0.80

See accompanying notes.

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COMPREHENSIVE INCOME STATEMENTS

(In millions)

Year Ended June 30,	2014	2013	2012
Net income	\$ 22,074	\$ 21,863	\$ 16,978
Other comprehensive income (loss):			
Net unrealized gains (losses) on derivatives (net of tax effects of \$(4), \$(14), and \$137)	(35)	(26)	255
Net unrealized gains (losses) on investments (net of tax effects of \$936, \$195, and \$(210))	1,737	363	(390)
Translation adjustments and other (net of tax effects of \$12, \$(8), and \$(165))	263	(16)	(306)
Other comprehensive income (loss)	1,965	321	(441)
Comprehensive income	\$ 24,039	\$ 22,184	\$ 16,537

See accompanying notes.

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BALANCE SHEETS

(In millions)

June 30,	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,669	\$ 3,804
Short-term investments (including securities loaned of \$541 and \$579)	77,040	73,218
Total cash, cash equivalents, and short-term investments	85,709	77,022
Accounts receivable, net of allowance for doubtful accounts of \$301 and \$336	19,544	17,486
Inventories	2,660	1,938
Deferred income taxes	1,941	1,632
Other	4,392	3,388
Total current assets	114,246	101,466
Property and equipment, net of accumulated depreciation of \$14,793 and \$12,513	13,011	9,991
Equity and other investments	14,597	10,844
Goodwill	20,127	14,655
Intangible assets, net	6,981	3,083
Other long-term assets	3,422	2,392
Total assets	\$ 172,384	\$ 142,431
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,432	\$ 4,828
Short-term debt	2,000	0
Current portion of long-term debt	0	2,999
Accrued compensation	4,797	4,117
Income taxes	782	592
Short-term unearned revenue	23,150	20,639
Securities lending payable	558	645
Other	6,906	3,597
Total current liabilities	45,625	37,417
Long-term debt	20,645	12,601
Long-term unearned revenue	2,008	1,760
Deferred income taxes	2,728	1,709
Other long-term liabilities	11,594	10,000
Total liabilities	82,600	63,487
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 8,239 and 8,328	68,366	67,306
Retained earnings	17,710	9,895
Accumulated other comprehensive income	3,708	1,743
Total stockholders' equity	89,784	78,944
Total liabilities and stockholders' equity	\$ 172,384	\$ 142,431

See accompanying notes.

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CASH FLOWS STATEMENTS

(In millions)

Year Ended June 30,	2014	2013	2012
Operations			
Net income	\$ 22,074	\$ 21,863	\$ 16,978
Adjustments to reconcile net income to net cash from operations:			
Goodwill impairment	0	0	6,193
Depreciation, amortization, and other	5,212	3,755	2,967
Stock-based compensation expense	2,446	2,406	2,244
Net recognized losses (gains) on investments and derivatives	(109)	80	(200)
Excess tax benefits from stock-based compensation	(271)	(209)	(93)
Deferred income taxes	(331)	(19)	954
Deferral of unearned revenue	44,325	44,253	36,104
Recognition of unearned revenue	(41,739)	(41,921)	(33,347)
Changes in operating assets and liabilities:			
Accounts receivable	(1,120)	(1,807)	(1,156)
Inventories	(161)	(802)	184
Other current assets	(29)	(129)	493
Other long-term assets	(628)	(478)	(248)
Accounts payable	473	537	(31)
Other current liabilities	1,075	146	410
Other long-term liabilities	1,014	1,158	174
Net cash from operations	32,231	28,833	31,626
Financing			
Proceeds from issuance of short-term debt, maturities of 90 days or less, net	500	0	0
Proceeds from issuance of debt	10,350	4,883	0
Repayments of debt	(3,888)	(1,346)	0
Common stock issued	607	931	1,913
Common stock repurchased	(7,316)	(5,360)	(5,029)
Common stock cash dividends paid	(8,779)	(7,455)	(6,385)
Excess tax benefits from stock-based compensation	271	209	93
Other	(39)	(10)	0
Net cash used in financing	(8,394)	(8,148)	(9,408)
Investing			
Additions to property and equipment	(5,485)	(4,257)	(2,305)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(5,937)	(1,584)	(10,112)
Purchases of investments	(72,690)	(75,396)	(57,250)
Maturities of investments	5,272	5,130	15,575
Sales of investments	60,094	52,464	29,700
Securities lending payable	(87)	(168)	(394)
Net cash used in investing	(18,833)	(23,811)	(24,786)
Effect of exchange rates on cash and cash equivalents	(139)	(8)	(104)
Net change in cash and cash equivalents	4,865	(3,134)	(2,672)
Cash and cash equivalents, beginning of period	3,804	6,938	9,610
Cash and cash equivalents, end of period	\$ 8,669	\$ 3,804	\$ 6,938

See accompanying notes.

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STOCKHOLDERS' EQUITY STATEMENTS

(In millions)

Year Ended June 30,	2014	2013	2012
Common stock and paid-in capital			
Balance, beginning of period	\$ 67,306	\$ 65,797	\$ 63,415
Common stock issued	607	920	1,924
Common stock repurchased	(2,328)	(2,014)	(1,714)
Stock-based compensation expense	2,446	2,406	2,244
Stock-based compensation income tax benefits (deficiencies)	272	190	(75)
Other, net	63	7	3
Balance, end of period	68,366	67,306	65,797
Retained earnings (deficit)			
Balance, beginning of period	9,895	(856)	(8,195)
Net income	22,074	21,863	16,978
Common stock cash dividends	(9,271)	(7,694)	(6,721)
Common stock repurchased	(4,988)	(3,418)	(2,918)
Balance, end of period	17,710	9,895	(856)
Accumulated other comprehensive income			
Balance, beginning of period	1,743	1,422	1,863
Other comprehensive income (loss)	1,965	321	(441)
Balance, end of period	3,708	1,743	1,422
Total stockholders' equity	\$ 89,784	\$ 78,944	\$ 66,363

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments through which we are able to exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates include: loss contingencies; product warranties; the fair value of, and/or potential goodwill impairment for, our reporting units; product life cycles; useful lives of our tangible and intangible assets; allowances for doubtful accounts; allowances for product returns; the market value of our inventory; and stock-based compensation forfeiture rates. Examples of assumptions include: the elements comprising a software arrangement, including the distinction between upgrades or enhancements and new products; when technological feasibility is achieved for our products; the potential outcome of future tax consequences of events that have been recognized in our consolidated financial statements or tax returns; and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

Recasting of Certain Prior Period Information

During the first quarter of fiscal year 2014, we changed our organizational structure as part of our transformation to a devices and services company. As a result, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed. Therefore, beginning in fiscal year 2014, we reported our financial performance based on our new segments described in Note 21 – Segment Information and Geographic Data. We have recast certain prior period amounts to conform to the way we internally managed and monitored segment performance during fiscal year 2014. This change impacted Note 10 – Goodwill, Note 14 – Unearned Revenue, and Note 21 – Segment Information and Geographic Data, with no impact on our consolidated financial statements.

Foreign Currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded to other comprehensive income ("OCI").

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. Revenue generally is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue recognition for multiple-element arrangements requires judgment to determine if multiple elements exist, whether elements can be accounted for as separate units of accounting, and if so, the fair value for each of the elements.

Microsoft enters into arrangements that can include various combinations of software, services, and hardware. Where elements are delivered over different periods of time, and when allowed under U.S. GAAP, revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. We use a hierarchy to determine the fair value to be used for allocating revenue to elements: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence, and (iii) best estimate of selling price ("ESP"). For software elements, we follow the industry specific software guidance which only allows for the use of VSOE in establishing fair value. Generally, VSOE is the price charged when the deliverable is sold separately or the price established by management for a product that is not yet sold if it is probable that the price will not change before introduction into the marketplace. ESPs are established as best estimates of what the selling prices would be if the deliverables were sold regularly on a stand-alone basis. Our process for determining ESPs requires judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable.

Revenue for retail packaged products, products licensed to original equipment manufacturers ("OEMs"), and perpetual licenses under certain volume licensing programs generally is recognized as products are shipped or made available.

Technology guarantee programs are accounted for as multiple-element arrangements as customers receive free or significantly discounted rights to use upcoming new versions of a software product if they license existing versions of the product during the eligibility period. Revenue is allocated between the existing product and the new product, and revenue allocated to the new product is deferred until that version is delivered. The revenue allocation is based on the VSOE of fair value of the products. The VSOE of fair value for upcoming new products are based on the price determined by management having the relevant authority when the element is not yet sold separately, but is expected to be sold in the near future at the price set by management.

Software updates that will be provided free of charge are evaluated on a case-by-case basis to determine whether they meet the definition of an upgrade and create a multiple-element arrangement, which may require revenue to be deferred and recognized when the upgrade is delivered, or if it is determined that implied post-contract customer support ("PCS") is being provided, the arrangement is accounted for as a multiple-element arrangement and all revenue from the arrangement is deferred and recognized over the implied PCS term when the VSOE of fair value does not exist. If updates are determined to not meet the definition of an upgrade, revenue is generally recognized as products are shipped or made available.

Certain volume licensing arrangements include a perpetual license for current products combined with rights to receive unspecified future versions of software products ("Software Assurance"), which we have determined are additional software products and are therefore accounted for as subscriptions, with billings recorded as unearned revenue and recognized as revenue ratably over the coverage period. Arrangements that include term-based licenses for current products with the right to use unspecified future versions of the software during the coverage period, are also accounted for as subscriptions, with revenue recognized ratably over the coverage period.

Revenue from cloud-based services arrangements that allow for the use of a hosted software product or service over a contractually determined period of time without taking possession of software are accounted for as subscriptions with billings recorded as unearned revenue and recognized as revenue ratably over the coverage period beginning on the date the service is made available to customers. Revenue from cloud-based services arrangements that are provided on a consumption basis (for example, the amount of storage used in a particular period) is recognized commensurate with the customer utilization of such resources.

Some volume licensing arrangements include time-based subscriptions for cloud-based services and software offerings that are accounted for as subscriptions. These arrangements are considered multiple-element arrangements. However, because all elements are accounted for as subscriptions and have the same coverage period and delivery pattern, they have the same revenue recognition timing.

Revenue related to phones, Surface, Xbox consoles, games published by us, and other hardware components is generally recognized when ownership is transferred to the resellers or to end customers when selling directly through Microsoft retail stores and online marketplaces. A portion of revenue may be deferred when these products are combined with software elements, and/or services. Revenue related to licensing for games published by third parties for use on the Xbox consoles is recognized when games are manufactured by the game publishers.

Display advertising revenue is recognized as advertisements are displayed. Search advertising revenue is recognized when the ad appears in the search results or when the action necessary to earn the revenue has been completed. Consulting services revenue is recognized as services are rendered, generally based on the negotiated hourly rate in the consulting arrangement and the number of hours worked during the period. Consulting revenue for fixed-price services arrangements is recognized as services are provided. Revenue from prepaid points redeemable for the purchase of software or services is recognized upon redemption of the points and delivery of the software or services.

Cost of Revenue

Cost of revenue includes: manufacturing and distribution costs for products sold and programs licensed; operating costs related to product support service centers and product distribution centers; costs incurred to include software on PCs sold by OEMs, to drive traffic to our websites, and to acquire online advertising space ("traffic acquisition costs"); costs incurred to support and maintain Internet-based products and services, including datacenter costs and royalties; warranty costs; inventory valuation adjustments; costs associated with the delivery of consulting services; and the amortization of capitalized research and development costs. Capitalized research and development costs are amortized over the estimated lives of the products.

Product Warranty

We provide for the estimated costs of fulfilling our obligations under hardware and software warranties at the time the related revenue is recognized. For hardware warranties, we estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and the country in which we do business, but generally include parts and labor over a period generally ranging from 90 days to three years. For software warranties, we estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. We regularly reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Research and Development

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, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Such costs related to software development are included in research and development expense until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are released to manufacturing. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

Sales and Marketing

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. Advertising costs are expensed as incurred. Advertising expense was \$2.3 billion, \$2.6 billion, and \$1.6 billion in fiscal years 2014, 2013, and 2012, respectively.

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award (generally four to five years) using the straight-line method.

Employee Stock Purchase Plan

Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value of the stock on the last day of each three-month period. Compensation expense for the employee stock purchase plan is measured as the discount the employee is entitled to upon purchase and is recognized in the period of purchase.

Income Taxes

Income tax expense includes U.S. and international income taxes, the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested, and interest and penalties on uncertain tax positions. Certain income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are reported net of a valuation allowance when it is more likely than not that a tax benefit will not be realized. The deferred income taxes are classified as current or long-term based on the classification of the related asset or liability.

Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- *Level 1* – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. Our Level 1 non-derivative investments primarily include U.S. government securities, domestic and international equities, and actively traded mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.
- *Level 2* – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies and commodities. Our Level 2 non-derivative investments consist primarily of corporate notes and bonds, common and preferred stock, mortgage-backed securities, certificates of deposit, and foreign government bonds. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter option and swap contracts.
- *Level 3* – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 non-derivative assets primarily comprise investments in common and preferred stock and goodwill when it is recorded at fair value due to an impairment charge. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

We measure certain assets, including our cost and equity method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined

based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

Our other current financial assets and our current financial liabilities have fair values that approximate their carrying values.

Financial Instruments

We consider all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in OCI.

Equity and other investments classified as long-term include both debt and equity instruments. With the exception of certain corporate notes that are classified as held-to-maturity, debt and publicly-traded equity securities are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in the market value of available-for-sale securities, excluding other-than-temporary impairments, are reflected in OCI. Held-to-maturity investments are recorded and held at amortized cost. Common and preferred stock and other investments that are restricted for more than one year or are not publicly traded are recorded at cost or using the equity method.

We lend certain fixed-income and equity securities to increase investment returns. The loaned securities continue to be carried as investments on our balance sheet. Cash and/or security interests are received as collateral for the loaned securities with the amount determined based upon the underlying security lent and the creditworthiness of the borrower. Cash received is recorded as an asset with a corresponding liability.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed-income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as fair value hedges, the gains (losses) are recognized in earnings in the periods of change together with the offsetting losses (gains) on the hedged items attributed to the risk being hedged. For options designated as fair value hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

For derivative instruments designated as cash-flow hedges, the effective portion of the gains (losses) on the derivatives is initially reported as a component of OCI and is subsequently recognized in earnings when the hedged

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exposure is recognized in earnings. For options designated as cash-flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains (losses) on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

For derivative instruments that are not designated as hedges, gains (losses) from changes in fair values are primarily recognized in other income (expense). Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities, which are recorded as a component of OCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are reclassified from accumulated other comprehensive income ("AOCI") into other income (expense).

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence. Activity in the allowance for doubtful accounts was as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Balance, beginning of period	\$ 336	\$ 389	\$ 333
Charged to costs and other	16	4	115
Write-offs	(51)	(57)	(59)
Balance, end of period	\$ 301	\$ 336	\$ 389

Inventories

Inventories are stated at average cost, subject to the lower of cost or market. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of revenue. The determination of market value and the estimated volume of demand used in the lower of cost or market analysis require significant judgment.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are generally as follows: computer software developed or acquired for internal use, three to seven years; computer equipment, two to three years; buildings and improvements, five to 15 years; leasehold improvements, two to 20 years; and furniture and equipment, one to 10 years. Land is not depreciated.

Goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (May 1 for us) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Intangible Assets

All of our intangible assets are subject to amortization and are amortized using the straight-line method over their estimated period of benefit, ranging from one to 15 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Recent Accounting Guidance

Recently adopted accounting guidance

In December 2011, the Financial Accounting Standards Board ("FASB") issued guidance enhancing disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its financial instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. In January 2013, the FASB clarified that the scope of this guidance applies to derivatives, repurchase agreements, and securities lending arrangements that are either offset or subject to an enforceable master netting arrangement, or similar agreements. We adopted this new guidance beginning July 1, 2013. Adoption of this new guidance resulted only in changes to the presentation of Note 5 – Derivatives.

In February 2013, the FASB issued guidance on disclosure requirements for items reclassified out of AOCI. This new guidance requires entities to present (either on the face of the income statement or in the notes to financial statements) the effects on the line items of the income statement for amounts reclassified out of AOCI. We adopted this new guidance beginning July 1, 2013. Adoption of this new guidance resulted only in changes to the presentation of Note 19 – Accumulated Other Comprehensive Income.

Recent accounting guidance not yet adopted

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The new guidance will be effective for us beginning July 1, 2014. We do not anticipate material impacts on our consolidated financial statements upon adoption.

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards, the FASB issued a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for us beginning July 1, 2017 and early adoption is not permitted. We anticipate this standard will have a material impact, and we are currently evaluating the impact this standard will have on our consolidated financial statements.

NOTE 2 — EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

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The components of basic and diluted EPS are as follows:

(In millions, except earnings per share)

Year Ended June 30,	2014	2013	2012
Net income available for common shareholders (A)	\$ 22,074	\$ 21,863	\$ 16,978
Weighted average outstanding shares of common stock (B)	8,299	8,375	8,396
Dilutive effect of stock-based awards	100	95	110
Common stock and common stock equivalents (C)	8,399	8,470	8,506
Earnings Per Share			
Basic (A/B)	\$ 2.66	\$ 2.61	\$ 2.02
Diluted (A/C)	\$ 2.63	\$ 2.58	\$ 2.00

Anti-dilutive stock-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented.

NOTE 3 — OTHER INCOME (EXPENSE)

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

(In millions)

Year Ended June 30,	2014	2013	2012
Dividends and interest income	\$ 883	\$ 677	\$ 800
Interest expense	(597)	(429)	(380)
Net recognized gains on investments	437	116	564
Net losses on derivatives	(328)	(196)	(364)
Net losses on foreign currency remeasurements	(165)	(74)	(117)
Other	(169)	194	1
Total	\$ 61	\$ 288	\$ 504

Following are details of net recognized gains (losses) on investments during the periods reported:

(In millions)

Year Ended June 30,	2014	2013	2012
Other-than-temporary impairments of investments	\$ (106)	\$ (208)	\$ (298)
Realized gains from sales of available-for-sale securities	776	489	1,418
Realized losses from sales of available-for-sale securities	(233)	(165)	(556)
Total	\$ 437	\$ 116	\$ 564

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NOTE 4 — INVESTMENTS

Investment Components

The components of investments, including associated derivatives, but excluding held-to-maturity investments, were as follows:

(In millions)	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
June 30, 2014							
Cash	\$ 4,980	\$ 0	\$ 0	\$ 4,980	\$ 4,980	\$ 0	\$ 0
Mutual funds	590	0	0	590	590	0	0
Commercial paper	189	0	0	189	89	100	0
Certificates of deposit	1,197	0	0	1,197	865	332	0
U.S. government and agency securities	66,952	103	(29)	67,026	109	66,917	0
Foreign government bonds	3,328	17	(10)	3,335	2,027	1,308	0
Mortgage-backed securities	991	30	(2)	1,019	0	1,019	0
Corporate notes and bonds	6,845	191	(9)	7,027	9	7,018	0
Municipal securities	287	45	0	332	0	332	0
Common and preferred stock	6,785	5,207	(81)	11,911	0	0	11,911
Other investments	1,164	0	0	1,164	0	14	1,150
Total	\$ 93,308	\$ 5,593	\$ (131)	\$ 98,770	\$ 8,669	\$ 77,040	\$ 13,061

(In millions)	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
June 30, 2013							
Cash	\$ 1,967	\$ 0	\$ 0	\$ 1,967	\$ 1,967	\$ 0	\$ 0
Mutual funds	868	0	0	868	868	0	0
Commercial paper	603	0	0	603	214	389	0
Certificates of deposit	994	0	0	994	609	385	0
U.S. government and agency securities	64,934	47	(84)	64,897	146	64,751	0
Foreign government bonds	900	16	(41)	875	0	875	0
Mortgage-backed securities	1,258	43	(13)	1,288	0	1,288	0
Corporate notes and bonds	4,993	169	(40)	5,122	0	5,122	0
Municipal securities	350	36	(1)	385	0	385	0
Common and preferred stock	6,931	2,938	(281)	9,588	0	0	9,588
Other investments	1,279	0	0	1,279	0	23	1,256
Total	\$ 85,077	\$ 3,249	\$ (460)	\$ 87,866	\$ 3,804	\$ 73,218	\$ 10,844

In addition to the investments in the table above, we also own corporate notes that were purchased in connection with our agreement to lend \$2.0 billion to the group that completed their acquisition of Dell on October 29, 2013. These corporate notes are classified as held-to-maturity investments and are included in equity and other investments on the balance sheet. As of June 30, 2014, the amortized cost, recorded basis, and estimated fair value of these corporate notes was \$1.5 billion, \$1.5 billion, and \$1.7 billion, respectively, while their associated gross unrecognized holding gains were \$164 million.

As of June 30, 2014 and 2013, the recorded bases of common and preferred stock that are restricted for more than one year or are not publicly traded were \$520 million and \$395 million, respectively. These investments are carried at cost and are reviewed quarterly for indicators of other-than-temporary impairment. It is not practicable for us to reliably estimate the fair value of these investments.

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Unrealized Losses on Investments

Investments, excluding those held-to-maturity, with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2014						
U.S. government and agency securities	\$ 4,161	\$ (29)	\$ 850	\$ 0	\$ 5,011	\$ (29)
Foreign government bonds	566	(4)	21	(6)	587	(10)
Mortgage-backed securities	120	0	61	(2)	181	(2)
Corporate notes and bonds	1,154	(8)	34	(1)	1,188	(9)
Common and preferred stock	463	(48)	257	(33)	720	(81)
Total	\$ 6,464	\$ (89)	\$ 1,223	\$ (42)	\$ 7,687	\$ (131)

(In millions)	Less than 12 Months		12 Months or Greater		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
June 30, 2013						
U.S. government and agency securities	\$ 2,208	\$ (84)	\$ 0	\$ 0	\$ 2,208	\$ (84)
Foreign government bonds	589	(18)	69	(23)	658	(41)
Mortgage-backed securities	357	(12)	39	(1)	396	(13)
Corporate notes and bonds	1,142	(38)	27	(2)	1,169	(40)
Municipal securities	44	(1)	0	0	44	(1)
Common and preferred stock	1,166	(168)	409	(113)	1,575	(281)
Total	\$ 5,506	\$ (321)	\$ 544	\$ (139)	\$ 6,050	\$ (460)

As of June 30, 2014, we did not hold any held-to-maturity investments that are in an unrealized loss position.

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Unrealized losses from domestic and international equities are due to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of June 30, 2014.

Debt Investment Maturities

(In millions)	Cost Basis	Estimated Fair Value
June 30, 2014		
Due in one year or less	\$ 28,681	\$ 28,719
Due after one year through five years	46,734	46,881
Due after five years through 10 years	2,910	2,987
Due after 10 years	1,464	1,538
Total (a)	\$ 79,789	\$ 80,125

(a) Excludes held-to-maturity investments due October 31, 2023 with a cost basis and estimated fair value at June 30, 2014 of \$1.5 billion and \$1.7 billion, respectively.

NOTE 5 — DERIVATIVES

We use derivative instruments to manage risks related to foreign currencies, equity prices, interest rates, and credit; to enhance investment returns; and to facilitate portfolio diversification. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment. All notional amounts presented below are measured in U.S. dollar equivalents.

Foreign Currency

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions. Option and forward contracts are used to hedge a portion of forecasted international revenue for up to three years in the future and are designated as cash flow hedging instruments. Principal currencies hedged include the euro, Japanese yen, British pound, and Canadian dollar. As of June 30, 2014 and June 30, 2013, the total notional amounts of these foreign exchange contracts sold were \$4.9 billion and \$5.1 billion, respectively.

Foreign currency risks related to certain non-U.S. dollar denominated securities are hedged using foreign exchange forward contracts that are designated as fair value hedging instruments. As of June 30, 2014 and June 30, 2013, the total notional amounts of these foreign exchange contracts sold were \$3.1 billion and \$407 million, respectively.

Certain options and forwards not designated as hedging instruments are also used to manage the variability in exchange rates on accounts receivable, cash, and intercompany positions, and to manage other foreign currency exposures. As of June 30, 2014, the total notional amounts of these foreign exchange contracts purchased and sold were \$6.2 billion and \$8.5 billion, respectively. As of June 30, 2013, the total notional amounts of these foreign exchange contracts purchased and sold were \$5.0 billion and \$7.9 billion, respectively.

Equity

Securities held in our equity and other investments portfolio are subject to market price risk. Market price risk is managed relative to broad-based global and domestic equity indices using certain convertible preferred investments, options, futures, and swap contracts not designated as hedging instruments. From time to time, to hedge our price risk, we may use and designate equity derivatives as hedging instruments, including puts, calls, swaps, and forwards. As of June 30, 2014, the total notional amounts of equity contracts purchased and sold for managing market price risk were \$3.1 billion and \$2.1 billion, respectively, of which \$362 million and \$420 million, respectively, were designated as hedging instruments. As of June 30, 2013, the total notional amounts of equity contracts purchased and sold for managing market price risk were \$898 million and \$1.0 billion, respectively, none of which were designated as hedging instruments.

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using exchange-traded option and futures contracts and over-the-counter swap and option contracts, none of which are designated as hedging instruments. As of June 30, 2014, the total notional amounts of fixed-interest rate contracts purchased and sold were \$503 million and \$741 million, respectively. As of June 30, 2013, the total notional amounts of fixed-interest rate contracts purchased and sold were \$1.1 billion and \$809 million, respectively.

In addition, we use “To Be Announced” forward purchase commitments of mortgage-backed assets to gain exposure to agency mortgage-backed securities. These meet the definition of a derivative instrument in cases where physical delivery of the assets is not taken at the earliest available delivery date. As of June 30, 2014 and 2013, the total notional derivative amounts of mortgage contracts purchased were \$1.1 billion and \$1.2 billion, respectively.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts, not designated as hedging instruments, to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. We use credit default swaps as they are a low cost method of managing exposure to individual credit risks or groups of credit risks. As of June 30, 2014, the total notional amounts of credit contracts purchased and sold were \$412 million and \$440 million, respectively. As of June 30, 2013, the total notional amounts of credit contracts purchased and sold were \$377 million and \$501 million, respectively.

Commodity

We use broad-based commodity exposures to enhance portfolio returns and to facilitate portfolio diversification. We use swaps, futures, and option contracts, not designated as hedging instruments, to generate and manage exposures to broad-based commodity indices. We use derivatives on commodities as they can be low-cost alternatives to the purchase and storage of a variety of commodities, including, but not limited to, precious metals, energy, and grain. As of June 30, 2014, the total notional amounts of commodity contracts purchased and sold were \$1.4 billion and \$408 million, respectively. As of June 30, 2013, the total notional amounts of commodity contracts purchased and sold were \$1.2 billion and \$249 million, respectively.

Credit-Risk-Related Contingent Features

Certain of our counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain minimum liquidity of \$1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of June 30, 2014, our long-term unsecured debt rating was AAA, and cash investments were in excess of \$1.0 billion. As a result, no collateral was required to be posted.

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Fair Values of Derivative Instruments

The following tables present the fair values of derivative instruments designated as hedging instruments (“designated hedge derivatives”) and not designated as hedging instruments (“non-designated hedge derivatives”). The fair values exclude the impact of netting derivative assets and liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk:

	June 30, 2014				June 30, 2013		
			Assets	Liabilities		Assets	Liabilities
(In millions)	Short-term Investments	Other Current Assets	Equity and Other Investments	Other Current Liabilities	Short-term Investments	Other Current Assets	Other Current Liabilities
Non-designated Hedge Derivatives							
Foreign exchange contracts	\$ 10	\$ 39	\$ 0	\$ (97)	\$ 41	\$ 87	\$ (63)
Equity contracts	177	0	0	(21)	157	0	(9)
Interest rate contracts	17	0	0	(12)	18	0	(45)
Credit contracts	24	0	0	(13)	19	0	(17)
Commodity contracts	15	0	0	(1)	3	0	(1)
Total	\$ 243	\$ 39	\$ 0	\$ (144)	\$ 238	\$ 87	\$ (135)
Designated Hedge Derivatives							
Foreign exchange contracts	\$ 1	\$ 70	\$ 0	\$ (15)	\$ 9	\$ 167	\$ 0
Equity contracts	0	0	7	(125)	0	0	0
Total	\$ 1	\$ 70	\$ 7	\$ (140)	\$ 9	\$ 167	\$ 0
Total gross amounts of derivatives	\$ 244	\$ 109	\$ 7	\$ (284)	\$ 247	\$ 254	\$ (135)
Gross derivatives either offset or subject to an enforceable master netting agreement	\$ 99	\$ 109	\$ 7	\$ (284)	\$ 105	\$ 254	\$ (97)
Gross amounts offset in the balance sheet	(77)	(71)	(7)	155	(72)	(9)	80
Net amounts presented in the balance sheet	\$ 22	\$ 38	\$ 0	\$ (129)	\$ 33	\$ 245	\$ (17)
Gross amounts not offset in the balance sheet	0	0	0	0	0	0	0
Net amount	\$ 22	\$ 38	\$ 0	\$ (129)	\$ 33	\$ 245	\$ (17)

See also Note 4 – Investments and Note 6 – Fair Value Measurements.

Fair Value Hedge Gains (Losses)

We recognized in other income (expense) the following gains (losses) on contracts designated as fair value hedges and their related hedged items:

(In millions)

Year Ended June 30,	2014	2013	2012
Foreign Exchange Contracts			
Derivatives	\$ (14)	\$ 70	\$ 52
Hedged items	6	(69)	(50)
Total amount of ineffectiveness	\$ (8)	\$ 1	\$ 2
Equity Contracts			
Derivatives	\$ (110)	\$ 0	\$ 0
Hedged items	110	0	0
Total amount of ineffectiveness	\$ 0	\$ 0	\$ 0
Amount of equity contracts excluded from effectiveness assessment	\$ (9)	\$ 0	\$ 0

Cash Flow Hedge Gains (Losses)

We recognized the following gains (losses) on foreign exchange contracts designated as cash flow hedges (our only cash flow hedges during the periods presented):

(In millions)

Year Ended June 30,	2014	2013	2012
Effective Portion			
Gains recognized in OCI, net of tax effects of \$2, \$54 and \$127	\$ 63	\$ 101	\$ 236
Gains (losses) reclassified from AOCI into revenue	\$ 104	\$ 195	\$ (27)
Amount Excluded from Effectiveness Assessment and Ineffective Portion			
Losses recognized in other income (expense)	\$ (239)	\$ (168)	\$ (231)

We estimate that \$32 million of net derivative gains included in AOCI at June 30, 2014 will be reclassified into earnings within the following 12 months. No significant amounts of gains (losses) were reclassified from AOCI into earnings as a result of forecasted transactions that failed to occur during fiscal year 2014.

Non-Designated Derivative Gains (Losses)

Gains (losses) from changes in fair values of derivatives that are not designated as hedges are primarily recognized in other income (expense). These amounts are shown in the table below, with the exception of gains (losses) on derivatives presented in income statement line items other than other income (expense), which were immaterial for the periods presented. Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) below are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities.

(In millions)

Year Ended June 30,	2014	2013	2012
Foreign exchange contracts	\$ (78)	\$ 18	\$ (119)
Equity contracts	(64)	16	(85)
Interest-rate contracts	24	(11)	93
Credit contracts	13	(3)	(7)
Commodity contracts	71	(42)	(121)

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NOTE 6 — FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value of our financial instruments that are measured at fair value on a recurring basis:

(In millions)	Level 1	Level 2	Level 3	Gross Fair Value	Netting (a)	Net Fair Value
June 30, 2014						
Assets						
Mutual funds	\$ 590	\$ 0	\$ 0	\$ 590	\$ 0	\$ 590
Commercial paper	0	189	0	189	0	189
Certificates of deposit	0	1,197	0	1,197	0	1,197
U.S. government and agency securities	66,288	745	0	67,033	0	67,033
Foreign government bonds	139	3,210	0	3,349	0	3,349
Mortgage-backed securities	0	1,015	0	1,015	0	1,015
Corporate notes and bonds	0	6,863	0	6,863	0	6,863
Municipal securities	0	332	0	332	0	332
Common and preferred stock	9,552	1,825	14	11,391	0	11,391
Derivatives	5	348	7	360	(155)	205
Total	\$ 76,574	\$ 15,724	\$ 21	\$ 92,319	\$ (155)	\$ 92,164
Liabilities						
Derivatives and other	\$ 5	\$ 153	\$ 126	\$ 284	\$ (155)	\$ 129
June 30, 2013						
Assets						
Mutual funds	\$ 868	\$ 0	\$ 0	\$ 868	\$ 0	\$ 868
Commercial paper	0	603	0	603	0	603
Certificates of deposit	0	994	0	994	0	994
U.S. government and agency securities	62,237	2,664	0	64,901	0	64,901
Foreign government bonds	9	851	0	860	0	860
Mortgage-backed securities	0	1,311	0	1,311	0	1,311
Corporate notes and bonds	0	4,915	19	4,934	0	4,934
Municipal securities	0	385	0	385	0	385
Common and preferred stock	8,470	717	5	9,192	0	9,192
Derivatives	12	489	0	501	(81)	420
Total	\$ 71,596	\$ 12,929	\$ 24	\$ 84,549	\$ (81)	\$ 84,468
Liabilities						
Derivatives and other	\$ 14	\$ 121	\$ 0	\$ 135	\$ (80)	\$ 55

(a) These amounts represent the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk.

In connection with the transaction to acquire substantially all of Nokia Corporation's ("Nokia") Devices and Services Business ("NDS"), on September 23, 2013 we provided Nokia €1.5 billion (\$2.1 billion) principal of convertible notes classified as Level 3 financial instruments. Upon closing of the acquisition, Nokia repurchased these notes at their principal amount plus accrued interest. All other changes in our Level 3 financial instruments that are measured at fair value on a recurring basis were immaterial during the periods presented.

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The following table reconciles the total Net Fair Value of assets above to the balance sheet presentation of these same assets in Note 4 – Investments.

(In millions)

June 30,	2014	2013
Net fair value of assets measured at fair value on a recurring basis	\$ 92,164	\$ 84,468
Cash	4,980	1,967
Common and preferred stock measured at fair value on a nonrecurring basis	520	395
Other investments measured at fair value on a nonrecurring basis	1,150	1,256
Less derivative net assets classified as other current assets	(38)	(213)
Other	(6)	(7)
Recorded basis of investment components ^(a)	\$ 98,770	\$ 87,866

(a) Excludes held-to-maturity investments recorded at amortized cost and measured at fair value on a nonrecurring basis.

Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

During fiscal year 2014 and 2013, we did not record any material other-than-temporary impairments on financial assets required to be measured at fair value on a nonrecurring basis.

NOTE 7 — INVENTORIES

The components of inventories were as follows:

(In millions)

June 30,	2014	2013
Raw materials	\$ 944	\$ 328
Work in process	266	201
Finished goods	1,450	1,409
Total	\$ 2,660	\$ 1,938

NOTE 8 — PROPERTY AND EQUIPMENT

The components of property and equipment were as follows:

(In millions)

June 30,	2014	2013
Land	\$ 541	\$ 525
Buildings and improvements	8,867	7,326
Leasehold improvements	3,560	2,946
Computer equipment and software	11,430	9,242
Furniture and equipment	3,406	2,465
Total, at cost	27,804	22,504
Accumulated depreciation	(14,793)	(12,513)
Total, net	\$ 13,011	\$ 9,991

During fiscal years 2014, 2013, and 2012, depreciation expense was \$3.4 billion, \$2.6 billion, and \$2.2 billion, respectively.

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NOTE 9 — BUSINESS COMBINATIONS

Nokia's Devices and Services Business

On April 25, 2014, we completed the transaction to acquire substantially all of NDS for a total purchase price of \$9.5 billion, including cash acquired of \$1.5 billion ("the Acquisition"). The purchase price consisted primarily of cash of \$7.1 billion and Nokia's repurchase of convertible notes of \$2.1 billion which was a non-cash transaction. The Acquisition is expected to accelerate the growth of our Devices and Consumer ("D&C") business through faster innovation, synergies, and unified branding and marketing.

The purchase price allocation as of the date of the Acquisition was based on a preliminary valuation and is subject to revision as more detailed analyses are completed and additional information about the fair value of assets acquired and liabilities assumed become available.

The major classes of assets and liabilities to which we have preliminarily allocated the purchase price were as follows:

(In millions)

Cash	\$ 1,503
Accounts receivable ^(a)	754
Inventories	544
Other current assets	960
Property and equipment	981
Intangible assets	4,509
Goodwill ^(b)	5,458
Other	249
Current liabilities	(4,576)
Long-term liabilities	(917)
Total purchase price	\$ 9,465

(a) Gross accounts receivable is \$901 million, of which \$147 million is expected to be uncollectible.

(b) Goodwill was assigned to our new Phone Hardware segment. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of NDS. Goodwill of \$4.5 billion is expected to be deductible in Finland for tax purposes.

Following are the details of the purchase price allocated to the intangible assets acquired:

(In millions)	Amount	Weighted Average Life
Technology-based	\$ 2,493	9 years
Contract-based	1,500	9 years
Customer-related	359	3 years
Marketing-related (trade names)	157	2 years
Fair value of intangible assets acquired	\$ 4,509	8 years

Our consolidated income statement for fiscal year 2014 includes revenue and operating loss of \$2.0 billion and \$692 million, respectively, attributable to NDS since the Acquisition.

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Following are the supplemental consolidated results of Microsoft Corporation on an unaudited pro forma basis, as if the Acquisition had been consummated on July 1, 2012:

(In millions, except per share amounts)

Year Ended June 30,	2014	2013
Revenue	\$ 96,248	\$ 93,243
Net income	\$ 20,234	\$ 20,153
Diluted earnings per share	\$ 2.41	\$ 2.38

These pro forma results were based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had we been a combined company during the periods presented and are not necessarily indicative of our consolidated results of operations in future periods. The pro forma results include adjustments primarily related to purchase accounting adjustments and the elimination of related party transactions between Microsoft and NDS. Acquisition costs and other non-recurring charges incurred are included in the earliest period presented.

During the fourth quarter of fiscal year 2014, we incurred \$21 million of acquisition costs associated with the purchase of NDS. Acquisition costs are primarily comprised of transaction fees and direct acquisition costs, including legal, finance, consulting, and other professional fees. These costs are included in Integration and restructuring costs on our consolidated income statement for fiscal year 2014.

Certain concurrent transactions were recognized separately from the Acquisition. Prior to the Acquisition, we had joint strategic initiatives with Nokia; this contractual relationship was terminated in conjunction with the Acquisition. No gain or loss was recorded upon termination of this agreement, as it was determined to be at market value. In addition, we agreed to license Nokia's mapping services and will pay Nokia separately for the services provided under a four-year license as they are rendered.

Yammer

On July 18, 2012, we acquired Yammer, Inc. ("Yammer"), a leading provider of enterprise social networks, for \$1.1 billion in cash. Yammer will continue to develop its standalone service and will add an enterprise social networking service to Microsoft's portfolio of complementary cloud-based services. The major classes of assets to which we allocated the purchase price were goodwill of \$937 million and identifiable intangible assets of \$178 million. We assigned the goodwill to Commercial Other under our current segment structure. Yammer was consolidated into our results of operations starting on the acquisition date.

Skype

On October 13, 2011, we acquired Skype Global S.á r.l. ("Skype"), a leading global provider of software applications and related Internet communications products based in Luxembourg, for \$8.6 billion, primarily in cash. The major classes of assets and liabilities to which we allocated the purchase price were goodwill of \$7.1 billion, identifiable intangible assets of \$1.6 billion, and unearned revenue of \$222 million. The goodwill recognized in connection with the acquisition is primarily attributable to our expectation of extending Skype's brand and the reach of its networked platform, while enhancing Microsoft's existing portfolio of real-time communications products and services. We assigned the goodwill to the following segments under our current segment structure: \$5.6 billion to Commercial Licensing, \$1.4 billion to Computing and Gaming Hardware, and \$54 million to D&C Other. Skype was consolidated into our results of operations starting on the acquisition date.

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Following are the details of the purchase price allocated to the intangible assets acquired:

(In millions)		Weighted Average Life
Marketing-related (trade names)	\$ 1,249	15 years
Technology-based	275	5 years
Customer-related	114	5 years
Contract-based	10	4 years
Total	\$ 1,648	13 years

Other

During fiscal year 2014, we completed five additional acquisitions for total consideration of \$140 million, all of which was paid in cash. These entities have been included in our consolidated results of operations since their respective acquisition dates.

With the exception of NDS, pro forma results of operations have not been presented because the effects of the business combinations described in this note, individually and in aggregate, were not material to our consolidated results of operations.

NOTE 10 — GOODWILL

Changes in the carrying amount of goodwill were as follows:

(In millions)	June 30, 2012	Acquisitions	Other	June 30, 2013	Acquisitions	Other	June 30, 2014
Devices and Consumer Licensing	\$ 866	\$ 0	\$ 0	\$ 866	\$ 0	\$ 2	\$ 868
Hardware:							
Computing and Gaming Hardware	1,641	75	(27)	1,689	0	9	1,698
Phone Hardware	0	0	0	0	5,458 ^(a)	(104)	5,354
Total D&C Hardware	1,641	75	(27)	1,689	5,458	(95)	7,052
Other	742	0	(4)	738	0	0	738
Total Devices and Consumer	3,249	75	(31)	3,293	5,458	(93)	8,658
Commercial Licensing	10,054	4	(7)	10,051	2	5	10,058
Other	149	1,164	(2)	1,311	105	(5)	1,411
Total Commercial	10,203	1,168	(9)	11,362	107	0	11,469
Total goodwill	\$ 13,452	\$ 1,243	\$ (40)	\$ 14,655	\$ 5,565	\$ (93)	\$ 20,127

(a) Goodwill acquired during fiscal year 2014 related to the acquisition of NDS. See Note 9 – Business Combinations for additional details.

The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but do not exceed 12 months. Adjustments in purchase price allocations may require a recasting of the amounts allocated to goodwill retroactive to the periods in which the acquisitions occurred.

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Any change in the goodwill amounts resulting from foreign currency translations are presented as “Other” in the above table. Also included in “Other” are business dispositions and transfers between business segments due to reorganizations, as applicable.

As discussed in Note 21 – Segment Information and Geographic Data, during the first quarter of fiscal year 2014, we changed our organizational structure as part of our transformation to a devices and services company. This resulted in a change in our operating segments and reporting units. We allocated goodwill to our new reporting units using a relative fair value approach. In addition, we completed an assessment of any potential goodwill impairment for all reporting units immediately prior to the reallocation and determined that no impairment existed.

Goodwill Impairment

We test goodwill for impairment annually on May 1 at the reporting unit level using a discounted cash flow methodology with a peer-based, risk-adjusted weighted average cost of capital. We believe use of a discounted cash flow approach is the most reliable indicator of the fair values of the businesses.

No impairment of goodwill was identified as of May 1, 2014 or May 1, 2013. Upon completion of the fiscal year 2012 test, the goodwill of our OSD unit (in Devices and Consumer Other under our current segment structure) was determined to be impaired. The impairment was the result of the OSD unit experiencing slower than projected growth in search queries and search advertising revenue per query, slower growth in display revenue, and changes in the timing and implementation of certain initiatives designed to drive search and display revenue growth in the future. This goodwill impairment charge of \$6.2 billion also represented our accumulated goodwill impairment as of June 30, 2014 and 2013.

NOTE 11 — INTANGIBLE ASSETS

The components of intangible assets, all of which are finite-lived, were as follows:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Year Ended June 30,	2014			2013		
Technology-based ^(a)	\$ 6,440	\$ (2,615)	\$ 3,825	\$ 3,760	\$ (2,110)	\$ 1,650
Marketing-related	1,518	(324)	1,194	1,348	(211)	1,137
Contract-based	2,266	(716)	1,550	823	(688)	135
Customer-related	732	(320)	412	380	(219)	161
Total	\$ 10,956	\$ (3,975)	\$ 6,981	\$ 6,311	\$ (3,228)	\$ 3,083

(a) Technology-based intangible assets included \$98 million and \$218 million as of June 30, 2014 and 2013, respectively, of net carrying amount of software to be sold, leased, or otherwise marketed.

We estimate that we have no significant residual value related to our intangible assets. No material impairments of intangible assets were identified during any of the periods presented.

The components of intangible assets acquired during the periods presented were as follows:

(In millions)	Amount	Weighted Average Life	Amount	Weighted Average Life
Year Ended June 30,	2014		2013	
Technology-based	\$ 2,841	9 years	\$ 539	4 years
Marketing-related	174	2 years	39	7 years
Contract-based	1,500	9 years	0	*
Customer-related	363	3 years	89	6 years
Total	\$ 4,878	8 years	\$ 667	5 years

* Not applicable

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The table above includes \$4.5 billion related to the acquisition of NDS during fiscal year 2014. See Note 9 – Business Combination for additional details.

Intangible assets amortization expense was \$845 million, \$739 million, and \$558 million for fiscal years 2014, 2013, and 2012, respectively. Amortization of capitalized software was \$200 million, \$210 million, and \$117 million for fiscal years 2014, 2013, and 2012, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held at June 30, 2014:

(In millions)

Year Ending June 30,	
2015	\$ 1,237
2016	1,075
2017	804
2018	661
2019	637
Thereafter	2,567
<hr/>	
Total	\$ 6,981

NOTE 12 — DEBT

As of June 30, 2014, we had \$22.6 billion of issued and outstanding debt, comprising \$2.0 billion of short-term debt and \$20.6 billion of long-term debt. As of June 30, 2013, we had \$15.6 billion of issued and outstanding long-term debt.

Short-term Debt

As of June 30, 2014, we had \$2.0 billion of commercial paper issued and outstanding, with a weighted-average interest rate of 0.12% and maturities ranging from 86 days to 91 days. The estimated fair value of this commercial paper approximates its carrying value.

We have a \$5.0 billion credit facility that expires on November 14, 2018, which serves as a back-up for our commercial paper program. As of June 30, 2014, we were in compliance with the only financial covenant in the credit agreement, which requires us to maintain a coverage ratio of at least three times earnings before interest, taxes, depreciation, and amortization to interest expense, as defined in the credit agreement. No amounts were drawn against the credit facility during any of the periods presented.

Long-term Debt

As of June 30, 2014, the total carrying value and estimated fair value of our long-term debt were \$20.6 billion and \$21.5 billion, respectively. This is compared to a carrying value and estimated fair value of our long-term debt, including the current portion, of \$15.6 billion and \$15.8 billion, respectively, as of June 30, 2013. These estimated fair values are based on Level 2 inputs.

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The components of our long-term debt and the associated interest rates were as follows as of June 30, 2014 and 2013:

Due Date	Face Value June 30, 2014	Face Value June 30, 2013	Stated Interest Rate	Effective Interest Rate
(In millions)				
Notes				
September 27, 2013	\$ *	\$ 1,000	0.875%	1.000%
June 1, 2014	*	2,000	2.950%	3.049%
September 25, 2015	1,750	1,750	1.625%	1.795%
February 8, 2016	750	750	2.500%	2.642%
November 15, 2017	600	600	0.875%	1.084%
May 1, 2018	450	450	1.000%	1.106%
December 6, 2018 ^(a)	1,250	*	1.625%	1.824%
June 1, 2019	1,000	1,000	4.200%	4.379%
October 1, 2020	1,000	1,000	3.000%	3.137%
February 8, 2021	500	500	4.000%	4.082%
December 6, 2021 ^(b)	2,396	*	2.125%	2.233%
November 15, 2022	750	750	2.125%	2.239%
May 1, 2023	1,000	1,000	2.375%	2.465%
December 15, 2023 ^(a)	1,500	*	3.625%	3.726%
December 6, 2028 ^(b)	2,396	*	3.125%	3.218%
May 2, 2033 ^(c)	753	715	2.625%	2.690%
June 1, 2039	750	750	5.200%	5.240%
October 1, 2040	1,000	1,000	4.500%	4.567%
February 8, 2041	1,000	1,000	5.300%	5.361%
November 15, 2042	900	900	3.500%	3.571%
May 1, 2043	500	500	3.750%	3.829%
December 15, 2043 ^(a)	500	*	4.875%	4.918%
Total	\$ 20,745	\$ 15,665		

(a) In December 2013, we issued \$3.3 billion of debt securities.

(b) In December 2013, we issued €3.5 billion of debt securities.

(c) In April 2013, we issued €550 million of debt securities.

* Not applicable.

The notes in this table are senior unsecured obligations and rank equally with our other senior unsecured debt outstanding. Interest on these notes is paid semi-annually, except for the euro-denominated debt securities on which interest is paid annually. Cash paid for interest on our debt for fiscal years 2014, 2013, and 2012 was \$509 million, \$371 million, and \$344 million, respectively. As of June 30, 2014 and 2013, the aggregate unamortized discount for our long-term debt, including the current portion, was \$100 million and \$65 million, respectively.

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Debt Service

Maturities of our long-term debt for each of the next five years and thereafter are as follows:

(In millions)

Year Ending June 30,	
2015	\$ 0
2016	2,500
2017	0
2018	1,050
2019	2,250
Thereafter	14,945
Total	\$ 20,745

NOTE 13 — INCOME TAXES

The components of the provision for income taxes were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Current Taxes			
U.S. federal	\$ 3,738	\$ 3,131	\$ 2,235
U.S. state and local	266	332	153
Foreign	2,073	1,745	1,947
Current taxes	6,077	5,208	4,335
Deferred Taxes			
Deferred taxes	(331)	(19)	954
Provision for income taxes	\$ 5,746	\$ 5,189	\$ 5,289

U.S. and foreign components of income before income taxes were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
U.S.	\$ 7,127	\$ 6,674	\$ 1,600
Foreign	20,693	20,378	20,667
Income before income taxes	\$ 27,820	\$ 27,052	\$ 22,267

The items accounting for the difference between income taxes computed at the U.S. federal statutory rate and our effective rate were as follows:

Year Ended June 30,	2014	2013	2012
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
Foreign earnings taxed at lower rates	(17.1)%	(17.5)%	(21.1)%
Goodwill impairment	0%	0%	9.7%
Other reconciling items, net	2.8%	1.7%	0.2%
Effective rate	20.7%	19.2%	23.8%

The reduction from the federal statutory rate from foreign earnings taxed at lower rates results from producing and distributing our products and services through our foreign regional operations centers in Ireland, Singapore, and

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Puerto Rico. Our foreign earnings, which are taxed at rates lower than the U.S. rate and are generated from our regional operating centers, were 81%, 79%, and 79% of our foreign income before tax in fiscal years 2014, 2013, and 2012, respectively. In general, other reconciling items consist of interest, adjustments for intercompany transfer pricing, U.S. state income taxes, domestic production deductions, and credits. In fiscal years 2014, 2013, and 2012, there were no individually significant other reconciling items.

The components of the deferred income tax assets and liabilities were as follows:

(In millions)

June 30,	2014	2013
Deferred Income Tax Assets		
Stock-based compensation expense	\$ 903	\$ 888
Other expense items	1,112	917
Unearned revenue	520	445
Impaired investments	209	246
Loss carryforwards	922	715
Other revenue items	64	55
Deferred income tax assets	\$ 3,730	\$ 3,266
Less valuation allowance	(903)	(579)
Deferred income tax assets, net of valuation allowance	\$ 2,827	\$ 2,687
Deferred Income Tax Liabilities		
Foreign earnings	\$ (1,140)	\$ (1,146)
Unrealized gain on investments	(1,911)	(1,012)
Depreciation and amortization	(470)	(604)
Other	(87)	(2)
Deferred income tax liabilities	\$ (3,608)	\$ (2,764)
Net deferred income tax assets (liabilities)	\$ (781)	\$ (77)
Reported As		
Current deferred income tax assets	\$ 1,941	\$ 1,632
Other current liabilities	(125)	0
Other long-term assets	131	0
Long-term deferred income tax liabilities	(2,728)	(1,709)
Net deferred income tax assets (liabilities)	\$ (781)	\$ (77)

As of June 30, 2014, we had net operating loss carryforwards of \$3.6 billion, including \$2.2 billion of foreign net operating loss carryforwards acquired through our acquisition of Skype, and \$545 million through our acquisition of NDS. The valuation allowance disclosed in the table above relates to the foreign net operating loss carryforwards and other net deferred tax assets that may not be realized.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when the taxes are actually paid or recovered.

As of June 30, 2014, we have not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences of approximately \$92.9 billion resulting from earnings for certain non-U.S. subsidiaries which are permanently reinvested outside the U.S. The unrecognized deferred tax liability associated with these temporary differences was approximately \$29.6 billion at June 30, 2014.

Income taxes paid were \$5.5 billion, \$3.9 billion, and \$3.5 billion in fiscal years 2014, 2013, and 2012, respectively.

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Uncertain Tax Positions

Unrecognized tax benefits as of June 30, 2014, 2013, and 2012, were \$8.7 billion, \$8.6 billion, and \$7.2 billion, respectively. If recognized, these tax benefits would affect our effective tax rates for fiscal years 2014, 2013, and 2012, by \$7.0 billion, \$6.5 billion, and \$6.2 billion, respectively.

As of June 30, 2014, 2013, and 2012, we had accrued interest expense related to uncertain tax positions of \$1.5 billion, \$1.3 billion, and \$939 million, respectively, net of federal income tax benefits. Interest expense on unrecognized tax benefits was \$235 million, \$400 million, and \$154 million in fiscal years 2014, 2013, and 2012, respectively.

The aggregate changes in the balance of unrecognized tax benefits were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Balance, beginning of year	\$ 8,648	\$ 7,202	\$ 6,935
Decreases related to settlements	(583)	(30)	(16)
Increases for tax positions related to the current year	566	612	481
Increases for tax positions related to prior years	217	931	118
Decreases for tax positions related to prior years	(95)	(65)	(292)
Decreases due to lapsed statutes of limitations	(39)	(2)	(24)
Balance, end of year	\$ 8,714	\$ 8,648	\$ 7,202

During the third quarter of fiscal year 2011, we reached a settlement of a portion of an I.R.S. audit of tax years 2004 to 2006, which reduced our income tax expense by \$461 million. While we settled a portion of the I.R.S. audit, we remain under audit for these years. In February 2012, the I.R.S. withdrew its 2011 Revenue Agents Report and reopened the audit phase of the examination. As of June 30, 2014, the primary unresolved issue relates to transfer pricing, which could have a significant impact on our consolidated financial statements if not resolved favorably. 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 also continue to be subject to examination by the I.R.S. for tax years 2007 to 2013.

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 2013, some of which are currently under audit by local tax authorities. The resolutions of these audits are not expected to be material to our consolidated financial statements.

NOTE 14 — UNEARNED REVENUE

Unearned revenue by segment was as follows, with segments with significant balances shown separately:

(In millions)

June 30,	2014	2013
Commercial Licensing	\$ 19,099	\$ 18,460
Commercial Other	3,934	2,272
Rest of the segments	2,125	1,667
Total	\$ 25,158	\$ 22,399

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NOTE 15 — OTHER LONG-TERM LIABILITIES

(In millions)

June 30,	2014	2013
Tax contingencies and other tax liabilities	\$ 10,510	\$ 9,548
Other	1,084	452
Total	<u>\$ 11,594</u>	<u>\$ 10,000</u>

NOTE 16 — COMMITMENTS AND GUARANTEES

Construction and Operating Leases

We have committed \$880 million for constructing new buildings, building improvements, and leasehold improvements as of June 30, 2014.

We have operating leases for most U.S. and international sales and support offices, research and development facilities, manufacturing facilities, and certain equipment. Rental expense for facilities operating leases was \$874 million, \$711 million, and \$639 million, in fiscal years 2014, 2013, and 2012, respectively. Future minimum rental commitments under non-cancellable facilities operating leases in place as of June 30, 2014 are as follows:

(In millions)

Year Ending June 30,	
2015	\$ 878
2016	748
2017	671
2018	598
2019	456
Thereafter	1,063
Total	<u>\$ 4,414</u>

Indemnifications

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. We evaluate estimated losses for these indemnifications, and we consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, we have not encountered significant costs as a result of these obligations and have not accrued any liabilities related to these indemnifications in our consolidated financial statements.

NOTE 17 — CONTINGENCIES

Antitrust, Unfair Competition, and Overcharge Class Actions

A large number of antitrust and unfair competition class action lawsuits were filed against us in various state, federal, and Canadian courts on behalf of various classes of direct and indirect purchasers of our PC operating system and certain other software products between 1999 and 2005.

We obtained dismissals or reached settlements of all claims made in the United States. Under the settlements, generally class members can obtain vouchers that entitle them to be reimbursed for purchases of a wide variety of platform-neutral computer hardware and software. The total value of vouchers that we may issue varies by state. We will make available to certain schools a percentage of those vouchers that are not issued or claimed (one-half to two-

thirds depending on the state). The total value of vouchers we ultimately issue will depend on the number of class members who make claims and are issued vouchers. We estimate the total remaining cost of the settlements is approximately \$400 million, all of which had been accrued as of June 30, 2014.

Three similar cases pending in British Columbia, Ontario, and Quebec, Canada have not been settled. In March 2010, the court in the British Columbia case certified it as a class action. The plaintiffs successfully appealed a British Columbia Court of Appeal decision reversing class certification and dismissing the case. In October 2013, the Canadian Supreme Court reversed the appellate court and reinstated part of the British Columbia case, which is now scheduled for trial in September 2015. The other two cases were inactive pending action by the Supreme Court on the British Columbia case.

Other Antitrust Litigation and Claims

Novell litigation

In November 2004, Novell, Inc. ("Novell") filed a complaint in U.S. District Court for the District of Utah (later transferred to federal court in Maryland), asserting antitrust and unfair competition claims against us related to Novell's ownership of WordPerfect and other productivity applications during the period between June 1994 and March 1996. After the trial court dismissed or granted summary judgment on a number of Novell's claims, trial of the one remaining claim took place in late 2011 and resulted in a mistrial. In July 2012, the trial court granted Microsoft's motion for judgment as a matter of law. Novell appealed this decision to the U.S. Court of Appeals for the Tenth Circuit, which affirmed the trial court's decision in September 2013. The Supreme Court denied Novell's petition for review in April 2014.

Go Computer litigation

In June 2005, GO Computer Inc. and co-founder Jerry Kaplan filed a complaint in California state court asserting antitrust claims under the Cartwright Act related to the business of the former GO Corporation in the early 1990s and its successor in interest, Lucent Corporation in the early 2000s. All claims prior to June 2001 have been dismissed with prejudice as barred by the statute of limitations. After a mini-trial on standing issues, the case is now moving forward with discovery, and a trial is set for September 2015.

China State Administration for Industry and Commerce investigation

On July 28, 2014, Microsoft was informed that China's State Administration for Industry and Commerce (SAIC) had begun a formal investigation relating to China's Anti-Monopoly Law, and the SAIC conducted onsite inspections of Microsoft offices in Beijing, Shanghai, Guangzhou, and Chengdu. SAIC has stated the investigation relates to compatibility, bundle sales, and file verification issues related to Windows and Office software.

Patent and Intellectual Property Claims

Motorola litigation

In October 2010, Microsoft filed patent infringement complaints against Motorola Mobility ("Motorola") with the International Trade Commission ("ITC") and in U.S. District Court in Seattle for infringement of nine Microsoft patents by Motorola's Android devices. Since then, Microsoft and Motorola have filed additional claims against each other with the ITC, in federal district courts in Seattle, Wisconsin, Florida, and California, and in courts in Germany and the United Kingdom. The nature of the claims asserted and status of individual matters are summarized below.

International Trade Commission

In May 2012, the ITC issued a limited exclusion order against Motorola on one Microsoft patent, which became effective in July 2012 and was affirmed on appeal in December 2013. In July 2013, Microsoft filed an action in U.S. District Court in Washington, D.C. seeking an order to compel enforcement of the ITC's May 2012 import ban against infringing Motorola products by the Bureau of Customs and Border Protection ("CBP"), after learning that CBP had failed to fully enforce the order.

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In November 2010, Motorola filed an action against Microsoft with the ITC alleging infringement of five Motorola patents by Xbox consoles and accessories and seeking an exclusion order to prohibit importation of the allegedly infringing Xbox products. At Motorola's request, the ITC terminated its investigation of four Motorola patents. In March 2013, the ITC affirmed there was no violation of the remaining Motorola patent. Motorola appealed the ITC's decision to the U.S. Court of Appeals for the Federal Circuit.

U.S. District Court

The Seattle District Court case filed in October 2010 by Microsoft as a companion to Microsoft's ITC case against Motorola was stayed pending the outcome of the ITC case.

In November 2010, Microsoft sued Motorola for breach of contract in U.S. District Court in Seattle, alleging that Motorola breached its commitments to standards-setting organizations to license to Microsoft certain patents on reasonable and non-discriminatory ("RAND") terms and conditions. Motorola has declared these patents essential to the implementation of the H.264 video standard and the 802.11 Wi-Fi standard. In the Motorola ITC case described above and in suits described below, Motorola or a Motorola affiliate subsequently sued Microsoft on those patents in U.S. District Courts, in the ITC, and in Germany. In February 2012, the Seattle District Court granted a partial summary judgment in favor of Microsoft ruling that (1) Motorola had committed to standards organizations to license its declared-essential patents on RAND terms and conditions; and (2) Microsoft is a third-party beneficiary of those commitments. After trial, the Seattle District Court set per unit royalties for Motorola's H.264 and 802.11 patents, which resulted in an immaterial Microsoft liability. In September 2013, following trial of Microsoft's breach of contract claim, a jury awarded \$14.5 million in damages to Microsoft. Motorola appealed.

Cases filed by Motorola in Wisconsin, California, and Florida, with the exception of one currently stayed case in Wisconsin (a companion case to Motorola's ITC action), have been transferred to the U.S. District Court in Seattle. Motorola and Microsoft both seek damages as well as injunctive relief. The court has stayed these cases on agreement of the parties.

- In the transferred cases, Motorola asserts 15 patents are infringed by a range of Microsoft products including mobile and PC operating system, productivity, server, communication, browser and gaming products.
- In the Motorola action originally filed in California, Motorola asserts Microsoft violated antitrust laws in connection with Microsoft's assertion of patents against Motorola that Microsoft agreed to license to certain qualifying entities on RAND terms and conditions.
- In counterclaims, Microsoft asserts 14 patents are infringed by Motorola Android devices and certain Motorola digital video recorders.

Germany

In July 2011, Motorola filed patent infringement actions in Germany against Microsoft and several Microsoft subsidiaries.

- Motorola asserts two patents (one now expired) are essential to implementation of the H.264 video standard, and Motorola alleges that H.264 capable products including Xbox 360, Windows 7, Media Player, and Internet Explorer infringe those patents. In May 2012, the court issued an injunction relating to all H.264 capable Microsoft products in Germany, which Microsoft appealed. Orders in the litigation pending in Seattle, Washington described above enjoin Motorola from enforcing the German injunction.
- Motorola asserts that one patent covers certain syncing functionality in the ActiveSync protocol employed by Windows Phone 7, Outlook Mobile, Hotmail Mobile, Exchange Online, Exchange Server, and Hotmail Server. In April 2013, the court stayed the case pending the outcome of parallel proceedings in which Microsoft is seeking to invalidate the patent. In November 2013, the Federal Patent Court invalidated the originally issued patent claims, but ruled that certain new amended claims were patentable. Both Motorola and Microsoft appealed. In June 2014, the court reopened infringement proceedings and scheduled a hearing in November 2014.
- Microsoft may be able to mitigate the adverse impact of any injunction by altering its products to avoid Motorola's infringement claims.
- Any damages would be determined in separate proceedings.

In lawsuits Microsoft filed in Germany in 2011 and 2012, Microsoft asserts that Motorola Android devices infringe Microsoft patents and is seeking damages and injunctions. In 2012, regional courts in Germany issued injunctions on three of the Microsoft patents, which Motorola appealed. One judgment has been affirmed on appeal (and Motorola has further appealed), and the other two appeals are pending. In actions filed separately by Motorola to invalidate these patents, the Federal Patent Court in 2013 and 2014 held the Microsoft patents invalid, and Microsoft appealed. For the cases in which Microsoft obtained injunctions, if Motorola were to prevail following all appeals, Motorola could have a claim against Microsoft for damages caused by an erroneously granted injunction.

United Kingdom

In December 2011, Microsoft filed an action against Motorola in the High Court of Justice, Chancery Division, Patents Court, in London, England, seeking to revoke the UK part of the European patent asserted by Motorola in Germany against the ActiveSync protocol. In February 2012, Motorola counterclaimed alleging infringement of the patent and seeking damages and an injunction. In December 2012, the court ruled that Motorola's patent is invalid. The court also ruled that the patent, even if valid, would be licensed under the grant-back clause in Google's ActiveSync license. Motorola appealed and the appeals court affirmed the lower court's ruling in Microsoft's favor in November 2013. Motorola has exhausted all appeals and the rulings in Microsoft's favor are final.

IPCom patent litigation

IPCom GmbH & Co. is a German company that holds a large portfolio of mobile technology related patents spanning about 170 patent families and addressing a broad range of cellular technologies. IPCom has asserted 19 of these patents in litigation against Nokia and many of the leading cell phone companies and operators. Three of the infringement suits against Nokia (now assumed by Microsoft through the NDS acquisition) are still pending in courts in Germany, England, and Italy. These courts have held a number of IPCom's patents were invalid or not infringed. We continue to contest the validity or infringement of the patents remaining in dispute.

Interdigital patent litigation

InterDigital Technology Corporation and InterDigital Communications Corporation (collectively, "IDT") filed four patent infringement cases against Nokia in the ITC and in U.S. District Court for the District of Delaware between 2007 and 2013. We are being substituted for Nokia in these cases. Each case includes other co-defendants because most of the patents at issue allegedly relate to 3G and 4G wireless communications standards essential functionality. The suite of cases include three ITC investigations where IDT is seeking an order excluding importation of 3G and 4G phones into the U.S. and one active case in U.S. District Court in Delaware seeking an injunction and damages.

European copyright levies

We have assumed from Nokia all potential liability due to Nokia's alleged failure to pay "private copying levies" in various European countries based upon sale of memory cards and mobile phones that incorporate blank memory. The levies are based upon a 2001 EU Directive establishing a right for end users to make copies of copyrighted works for personal or private use, but also allowing the collection of levies based upon sales of blank media or recording devices to compensate copyright holders for private copying. Various collecting societies in EU countries initiated litigation against Nokia, stating that Nokia must pay levies not only based upon sales of blank memory cards, but also phones that include blank memory for data storage on the phones, regardless of actual usage of that memory. The most significant cases against Nokia are pending in Germany and Austria, due to both high volume of sales and high levy amounts sought in these countries. We are litigating against certain collecting societies on the basis that the levy schemes exceed what the EU Directive and European Court of Justice decisions permit.

Other patent and intellectual property claims

In addition to these cases, there are approximately 90 other patent infringement cases pending against Microsoft.

Product-Related Litigation*U.S. cell phone litigation*

Nokia, along with other handset manufacturers and network operators, is a defendant in 19 lawsuits filed in the Superior Court for the District of Columbia by individual plaintiffs who allege that radio emissions from cellular handsets caused their brain tumors and other adverse health effects. We have assumed responsibility for these claims as part of the NDS acquisition. Nine of these cases were filed in 2002 and are consolidated for certain pre-trial proceedings; the remaining ten cases are stayed. In a separate 2009 decision, the Court of Appeals for the District of Columbia held that adverse health effect claims arising from the use of cellular handsets that operate within the U.S. Federal Communications Commission radio frequency emission guidelines ("FCC Guidelines") are pre-empted by federal law. The plaintiffs allege that their handsets either operated outside the FCC Guidelines or were manufactured before the FCC Guidelines went into effect. The lawsuits also allege an industry-wide conspiracy to manipulate the science and testing around emission guidelines. In September 2013, defendants in the consolidated cases moved to exclude plaintiffs' expert evidence of general causation on the basis of flawed scientific methodologies. The motion was heard in December 2013 and January 2014. In March 2014, defendants filed a separate motion to preclude plaintiffs' general causation testimony on the ground that it is pre-empted by federal law because the experts challenge the safety of all cellular handsets, including those that comply with the FCC Guidelines. Both motions are pending.

Canadian cell phone class action

Nokia, along with other handset manufacturers and network operators, is a defendant in a 2013 class action lawsuit filed in the Supreme Court of British Columbia by a purported class of Canadians who have used cellular phones for at least 1600 hours, including a subclass of users with brain tumors. Microsoft was served with the complaint in June 2014. The litigation is not yet active as several defendants remain to be served.

Other

We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

As of June 30, 2014, we had accrued aggregate liabilities of \$780 million in other current liabilities and \$81 million in other long-term liabilities for all of our legal matters that were contingencies as of that date. While we intend to defend these matters vigorously, adverse outcomes that we estimate could reach approximately \$2.0 billion in aggregate beyond recorded amounts are reasonably possible. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our consolidated financial statements for the period in which the effects become reasonably estimable. Substantially all changes from the prior quarter in these accruals and estimates are attributable to matters involving Nokia that we assumed as a result of the NDS acquisition.

NOTE 18 — STOCKHOLDERS' EQUITY**Shares Outstanding**

Shares of common stock outstanding were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Balance, beginning of year	8,328	8,381	8,376
Issued	86	105	147
Repurchased	(175)	(158)	(142)
Balance, end of year	8,239	8,328	8,381

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Share Repurchases

On September 16, 2013, our Board of Directors approved a new share repurchase program authorizing up to \$40.0 billion in share repurchases. The share repurchase program became effective on October 1, 2013, has no expiration date, and may be suspended or discontinued at any time without notice. This new share repurchase program replaced the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013. As of June 30, 2014, \$35.1 billion remained of our \$40.0 billion share repurchase program. All repurchases were made using cash resources.

We repurchased the following shares of common stock under the above-described repurchase plans:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,	2014 (a)		2013 (b)		2012 (b)	
First quarter	47	\$ 1,500	33	\$ 1,000	38	\$ 1,000
Second quarter	53	2,000	58	1,607	39	1,000
Third quarter	47	1,791	36	1,000	31	1,000
Fourth quarter	28	1,118	31	1,000	34	1,000
Total	175	\$ 6,409	158	\$ 4,607	142	\$ 4,000

- (a) Of the 175 million shares repurchased in fiscal year 2014, 128 million shares were repurchased for \$4.9 billion under the share repurchase program approved by our Board of Directors on September 16, 2013 and 47 million shares were repurchased for \$1.5 billion under the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013.
- (b) All shares repurchased in fiscal years 2013 and 2012 were repurchased under the repurchase plan that was announced on September 22, 2008 and expired on September 30, 2013.

The above table excludes shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards.

Dividends

In fiscal year 2014, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
(In millions)				
September 16, 2013	\$ 0.28	November 21, 2013	\$ 2,332	December 12, 2013
November 19, 2013	\$ 0.28	February 20, 2014	\$ 2,322	March 13, 2014
March 11, 2014	\$ 0.28	May 15, 2014	\$ 2,309	June 12, 2014
June 10, 2014	\$ 0.28	August 21, 2014	\$ 2,307	September 11, 2014

The dividend declared on June 10, 2014 will be paid after the filing date of this Form 10-K and was included in other current liabilities as of June 30, 2014.

In fiscal year 2013, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
(In millions)				
September 18, 2012	\$ 0.23	November 15, 2012	\$ 1,933	December 13, 2012
November 28, 2012	\$ 0.23	February 21, 2013	\$ 1,925	March 14, 2013
March 11, 2013	\$ 0.23	May 16, 2013	\$ 1,921	June 13, 2013
June 12, 2013	\$ 0.23	August 15, 2013	\$ 1,916	September 12, 2013

The dividend declared on June 12, 2013 was included in other current liabilities as of June 30, 2013.

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NOTE 19 — ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income by component:

(In millions)

Year Ended June 30,	2014	2013	2012
Derivatives			
Accumulated other comprehensive income (loss) balance, beginning of period	\$ 66	\$ 92	\$ (163)
Unrealized gains (losses), net of tax effects of \$2, \$54 and \$127	63	101	236
Reclassification adjustments for losses (gains) included in revenue	(104)	(195)	29
Tax expense (benefit) included in provision for income taxes	6	68	(10)
Amounts reclassified from accumulated other comprehensive income	(98)	(127)	19
Net current period other comprehensive income (loss)	(35)	(26)	255
Accumulated other comprehensive income balance, end of period	\$ 31	\$ 66	\$ 92
Investments			
Accumulated other comprehensive income balance, beginning of period	\$ 1,794	\$ 1,431	\$ 1,821
Unrealized gains (losses), net of tax effects of \$1,067, \$244 and \$(93)	2,053	453	(172)
Reclassification adjustments for gains included in other income (expense)	(447)	(139)	(335)
Tax expense included in provision for income taxes	131	49	117
Amounts reclassified from accumulated other comprehensive income	(316)	(90)	(218)
Net current period other comprehensive income (loss)	1,737	363	(390)
Accumulated other comprehensive income balance, end of period	\$ 3,531	\$ 1,794	\$ 1,431
Translation Adjustments and Other			
Accumulated other comprehensive income (loss) balance, beginning of period	\$ (117)	\$ (101)	\$ 205
Translation adjustments and other, net of tax effects of \$12, \$(8) and \$(165)	263	(16)	(306)
Accumulated other comprehensive loss balance, end of period	\$ 146	\$ (117)	\$ (101)
Accumulated other comprehensive income, end of period	\$ 3,708	\$ 1,743	\$ 1,422

NOTE 20 — EMPLOYEE STOCK AND SAVINGS PLANS

We grant stock-based compensation to directors and employees. At June 30, 2014, an aggregate of 346 million shares were authorized for future grant under our stock plans, covering stock options, stock awards, and leadership stock awards. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plans. We issue new shares of Microsoft common stock to satisfy exercises and vesting of awards granted under all of our stock plans.

Stock-based compensation expense and related income tax benefits were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Stock-based compensation expense	\$ 2,446	\$ 2,406	\$ 2,244
Income tax benefits related to stock-based compensation	\$ 830	\$ 842	\$ 785

Stock Plans

Stock awards

Stock awards ("SAs") are grants that entitle the holder to shares of Microsoft common stock as the award vests. SAs generally vest over a four or five-year period.

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Executive incentive plan

Under the Executive Incentive Plan (“EIP”), the Compensation Committee awards performance-based compensation comprising both cash and SAs to executive officers and certain senior executives. For executive officers, their awards are based on an aggregate incentive pool equal to a percentage of consolidated operating income. For fiscal years 2014, 2013, and 2012, the pool was 0.44%, 0.35%, and 0.30% of operating income, respectively. The SAs vest ratably in August of each of the four years following the grant date. The final cash awards will be determined after each performance period based on individual and business performance.

Activity for all stock plans

The fair value of each award was estimated on the date of grant using the following assumptions:

Year Ended June 30,	2014	2013	2012
Dividends per share (quarterly amounts)	\$ 0.23 - \$ 0.28	\$ 0.20 - \$ 0.23	\$ 0.16 - \$ 0.20
Interest rates range	1.3% - 1.8%	0.6% - 1.1%	0.7% - 1.7%

During fiscal year 2014, the following activity occurred under our stock plans:

	Shares	Weighted Average Grant-Date Fair Value
	(In millions)	
Stock Awards		
Nonvested balance, beginning of year	273	\$ 25.50
Granted ^(a)	103	\$ 31.50
Vested	(93)	\$ 25.12
Forfeited	(24)	\$ 27.01
Nonvested balance, end of year	259	\$ 27.88

(a) Includes four million shares in stock replacement awards related to the acquisition of NDS. The weighted average grant-date fair value was \$37.64.

As of June 30, 2014, there was approximately \$5.2 billion of total unrecognized compensation costs related to stock awards. These costs are expected to be recognized over a weighted average period of 3 years.

During fiscal years 2013 and 2012, the following activity occurred under our stock plans:

(In millions, except fair values)	2013	2012
Stock Awards		
Awards granted	104	110
Weighted average grant-date fair value	\$ 28.37	\$ 24.60

Total vest-date fair value of stock awards vested was \$3.2 billion, \$2.8 billion, and \$2.4 billion, for fiscal years 2014, 2013, and 2012, respectively.

Employee Stock Purchase Plan

We have an employee stock purchase plan (the “Plan”) for all eligible employees. Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value on the last trading day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. Employees purchased the following shares during the periods presented:

(Shares in millions)

Year Ended June 30,	2014	2013	2012
Shares purchased	18	20	20
Average price per share	\$ 33.60	\$ 26.81	\$ 25.03

At June 30, 2014, 173 million shares of our common stock were reserved for future issuance through the Plan.

Savings Plan

We have a savings plan in the U.S. that qualifies under Section 401(k) of the Internal Revenue Code, and a number of savings plans in international locations. Participating U.S. employees may contribute up to 75% of their salary, but not more than statutory limits. We contribute fifty cents for each dollar of the first 6% a participant contributes in this plan, with a maximum contribution of the lesser of 3% of a participant's earnings or 3% of the IRS compensation limit for the given year. Matching contributions for all plans were \$420 million, \$393 million, and \$373 million in fiscal years 2014, 2013, and 2012, respectively, and were expensed as contributed. Matching contributions are invested proportionate to each participant's voluntary contributions in the investment options provided under the plan. Investment options in the U.S. plan include Microsoft common stock, but neither participant nor our matching contributions are required to be invested in Microsoft common stock.

NOTE 21 — SEGMENT INFORMATION AND GEOGRAPHIC DATA

In its operation of the business, management, including our chief operating decision maker, the company's Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis not consistent with U.S. GAAP. The segment information in this note is reported on that basis.

During the first quarter of fiscal year 2014, we changed our organizational structure as part of our transformation to a devices and services company. As a result, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed. Therefore, beginning in fiscal year 2014, we reported our financial performance based on our new segments; D&C Licensing, D&C Hardware, D&C Other, Commercial Licensing, and Commercial Other. We have recast certain prior period amounts to conform to the way we internally managed and monitored segment performance during fiscal year 2014.

On April 25, 2014, we acquired substantially all of NDS. See Note 9 – Business Combinations for additional details. NDS has been included in our consolidated results of operations starting on the acquisition date. We report the financial performance of the acquired business in our new Phone Hardware segment. Prior to the acquisition of NDS, financial results associated with our joint strategic initiatives with Nokia were reflected in our D&C Licensing segment. The contractual relationship with Nokia related to those initiatives terminated in conjunction with the acquisition. With the creation of the new Phone Hardware segment, the D&C Hardware segment was renamed Computing and Gaming Hardware in the fourth quarter of fiscal year 2014.

Our reportable segments are described below.

Devices and Consumer

Our D&C segments develop, manufacture, market, and support products and services designed to entertain and connect people, increase personal productivity, help people simplify tasks and make more informed decisions online, and help advertisers connect with audiences. Our D&C segments are:

- **D&C Licensing**, comprising: Windows, including all OEM licensing ("Windows OEM") and other non-volume licensing and academic volume licensing of the Windows operating system and related software; non-volume licensing of Microsoft Office, comprising the core Office product set, for consumers ("Office Consumer"); Windows Phone operating system, including related patent licensing; and certain other patent licensing revenue;
- **Computing and Gaming Hardware**, comprising: Xbox gaming and entertainment consoles and accessories, second-party and third-party video game royalties, and Xbox Live subscriptions ("Xbox Platform"); Surface devices and accessories; and Microsoft PC accessories;
- **Phone Hardware**, comprising: Lumia Smartphones and other non-Lumia phones, beginning with the acquisition of NDS; and
- **D&C Other**, comprising: Resale, including Windows Store, Xbox Live transactions, and Windows Phone Store; search advertising; display advertising; Office 365 Consumer, comprising Office 365 Home and Office 365 Personal; Studios, comprising first-party video games; our retail stores; and certain other consumer products and services not included in the categories above.

Commercial

Our Commercial segments develop, market, and support software and services designed to increase individual, team, and organizational productivity and efficiency, including simplifying everyday tasks through seamless operations across the user's hardware and software. Our Commercial segments are:

- **Commercial Licensing**, comprising: server products, including Windows Server, Microsoft SQL Server, Visual Studio, System Center, and related Client Access Licenses ("CALs"); Windows Embedded; volume licensing of the Windows operating system, excluding academic ("Windows Commercial"); Microsoft Office for business, including Office, Exchange, SharePoint, Lync, and related CALs ("Office Commercial"); Microsoft Dynamics business solutions, excluding Dynamics CRM Online; and Skype; and
- **Commercial Other**, comprising: Enterprise Services, including Premier Support Services and Microsoft Consulting Services; Commercial Cloud, comprising Office 365 Commercial, other Microsoft Office online offerings, Dynamics CRM Online, and Microsoft Azure; and certain other commercial products and online services not included in the categories above.

Revenue and cost of revenue are generally directly attributed to our segments. Certain revenue contracts are allocated among the segments based on the relative value of the underlying products and services. Cost of revenue is directly charged to our hardware segments. For the remaining segments, cost of revenue is directly charged in most cases and allocated in certain cases, generally using a relative revenue methodology.

We do not allocate operating expenses to our segments. Rather, we allocate them to our two segment groups, Devices and Consumer and Commercial. Due to the integrated structure of our business, allocations of expenses are made in certain cases to incent cross-collaboration among our segment groups so that a segment group is not solely burdened by the cost of a mutually beneficial activity as we seek to deliver seamless experiences across devices, whether on-premises or in the cloud.

Operating expenses are attributed to our segment groups as follows:

- Sales and marketing expenses are primarily recorded directly to each segment group based on identified customer segment.
- Research and development expenses are primarily shared across the segment groups based on relative gross margin but are mapped directly in certain cases where the value of the expense only accrues to that segment group.

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- General and administrative expenses are primarily allocated based on relative gross margin.

Certain corporate-level activity is not allocated to our segment groups, including costs of: legal, including expenses, settlements, and fines; information technology; human resources; finance; excise taxes; and integration and restructuring costs.

Segment revenue and gross margin were as follows during the periods presented:

(In millions)

Year Ended June 30,		2014	2013	2012
Revenue				
Devices and Consumer	Licensing	\$ 18,803	\$ 19,021	\$ 19,495
	Hardware:			
	Computing and Gaming Hardware	9,628	6,461	6,740
	Phone Hardware	1,985	0	0
	Total D&C Hardware	11,613	6,461	6,740
	Other	7,258	6,618	6,203
	Total Devices and Consumer	37,674	32,100	32,438
Commercial	Licensing	42,027	39,686	37,126
	Other	7,547	5,660	4,644
	Total Commercial	49,574	45,346	41,770
Corporate and Other		(415)	403	(485)
Total revenue		\$ 86,833	\$ 77,849	\$ 73,723

(In millions)

Year Ended June 30,		2014	2013	2012
Gross margin				
Devices and Consumer	Licensing	\$ 17,216	\$ 17,044	\$ 17,240
	Hardware:			
	Computing and Gaming Hardware	893	956	2,495
	Phone Hardware	54	0	0
	Total D&C Hardware	947	956	2,495
	Other	1,770	2,046	1,998
	Total Devices and Consumer	19,933	20,046	21,733
Commercial	Licensing	38,604	36,261	34,463
	Other	1,856	921	579
	Total Commercial	40,460	37,182	35,042
Corporate and Other		(494)	372	(582)
Total gross margin		\$ 59,899	\$ 57,600	\$ 56,193

Following is operating expenses by segment group. As discussed above, we do not allocate operating expenses below cost of revenue to our segments.

(In millions)

Year Ended June 30,	2014	2013	2012
---------------------	------	------	------

Devices and Consumer	\$ 11,219	\$ 10,625	\$ 15,682
Commercial	16,993	16,050	15,064
Corporate and Other	3,928	4,161	3,684
<hr/>			
Total operating expenses	\$ 32,140	\$ 30,836	\$ 34,430
	<hr/>	<hr/>	<hr/>

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Following is operating income (loss) by segment group.

(In millions)

Year Ended June 30,	2014	2013	2012
Devices and Consumer	\$ 8,714	\$ 9,421	\$ 6,051
Commercial	23,467	21,132	19,978
Corporate and Other	(4,422)	(3,789)	(4,266)
Total operating income	\$ 27,759	\$ 26,764	\$ 21,763

Corporate and Other operating income includes adjustments to conform our internal accounting policies to U.S. GAAP and corporate-level activity not specifically attributed to a segment. Significant internal accounting policies that differ from U.S. GAAP relate to revenue recognition, income statement classification, and depreciation.

Corporate and Other activity was as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Corporate ^(a)	\$ (3,888)	\$ (4,236)	\$ (3,671)
Other (adjustments to U.S. GAAP):			
Revenue reconciling amounts ^(b)	(415)	403	(485)
Cost of revenue reconciling amounts	(79)	(31)	(97)
Operating expenses reconciling amounts	(40)	75	(13)
Total Corporate and Other	\$ (4,422)	\$ (3,789)	\$ (4,266)

(a) Corporate is presented on the basis of our internal accounting policies and excludes the adjustments to U.S. GAAP that are presented separately in those line items.

(b) Revenue reconciling amounts for fiscal year 2014 included a net \$349 million of revenue deferrals related to sales of certain devices bundled with other products and services ("Bundled Offerings"). Revenue reconciling amounts for fiscal years 2012 and 2013 included the deferral and subsequent recognition, respectively, of \$540 million of revenue related to the Windows Upgrade Offer.

No sales to an individual customer or country other than the United States accounted for more than 10% of fiscal year 2014, 2013, or 2012 revenue. Revenue, classified by the major geographic areas in which our customers are located, was as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
United States ^(a)	\$ 43,474	\$ 41,344	\$ 38,846
Other countries	43,359	36,505	34,877
Total	\$ 86,833	\$ 77,849	\$ 73,723

(a) Includes billings to OEMs and certain multinational organizations because of the nature of these businesses and the impracticability of determining the geographic source of the revenue.

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Revenue from external customers, classified by significant product and service offerings were as follows:

(In millions)

Year Ended June 30,	2014	2013	2012
Microsoft Office system	\$ 24,323	\$ 22,995	\$ 22,299
Windows PC operating system	16,856	17,529	17,320
Server products and tools	17,055	15,408	14,232
Xbox Platform	8,643	7,100	8,045
Consulting and product support services	4,767	4,372	3,976
Advertising	4,016	3,387	3,181
Phone	3,073	615	162
Surface	1,883	853	0
Other	6,217	5,590	4,508
Total	\$ 86,833	\$ 77,849	\$ 73,723

Our total Commercial Cloud revenue was \$2.8 billion, \$1.3 billion, and \$0.7 billion in fiscal years 2014, 2013, and 2012, respectively. These amounts are included in their respective product categories in the table above.

Assets are not allocated to segments for internal reporting presentations. A portion of amortization and depreciation is charged to the respective segment. It is impracticable for us to separately identify the amount of amortization and depreciation by segment that is included in the measure of segment profit or loss.

Long-lived assets, excluding financial instruments and tax assets, classified by the location of the controlling statutory company and with countries over 10% of the total shown separately, were as follows:

(In millions)

June 30,	2014	2013	2012
United States	\$ 17,653	\$ 16,615	\$ 14,081
Finland	9,840	12	8
Luxembourg	6,913	6,943	6,975
Other countries	5,713	4,159	3,827
Total	\$ 40,119	\$ 27,729	\$ 24,891

NOTE 22 — QUARTERLY INFORMATION (UNAUDITED)

(In millions, except per share amounts)

Quarter Ended	September 30	December 31	March 31	June 30 (a)	Total (a)
Fiscal Year 2014					
Revenue	\$ 18,529	\$ 24,519	\$ 20,403	\$ 23,382	\$ 86,833
Gross margin	13,415	16,235	14,462	15,787	59,899
Net income	5,244	6,558	5,660	4,612 (b)	22,074 (b)
Basic earnings per share	0.63	0.79	0.68	0.56	2.66
Diluted earnings per share	0.62	0.78	0.68	0.55 (b)	2.63 (b)
Fiscal Year 2013					
Revenue	\$ 16,008	\$ 21,456	\$ 20,489	\$ 19,896	\$ 77,849
Gross margin	11,840	15,764	15,702	14,294	57,600
Net income	4,466	6,377	6,055 (c)	4,965 (d)	21,863 (e)
Basic earnings per share	0.53	0.76	0.72	0.59	2.61
Diluted earnings per share	0.53	0.76	0.72 (c)	0.59 (d)	2.58 (e)

(a) NDS has been included in our consolidated results of operations starting on April 25, 2014, the date of acquisition.

- (b) *Includes a tax provision adjustment recorded in the fourth quarter of fiscal year 2014 related to adjustments to prior years' liabilities for intercompany transfer pricing which decreased net income by \$458 million and diluted earnings per share by \$0.05.*

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- (c) *Includes a charge related to a fine imposed by the European Commission in March 2013 which decreased net income by \$733 million (€561 million) and diluted earnings per share by \$0.09.*
- (d) *Includes a charge for Surface RT inventory adjustments recorded in the fourth quarter of fiscal year 2013, which decreased net income by \$596 million and diluted earnings per share by \$0.07.*
- (e) *Includes a charge related to a fine imposed by the European Commission in March 2013 which decreased net income by \$733 million (€561 million) and diluted earnings per share by \$0.09. Also includes a charge for Surface RT inventory adjustments recorded in the fourth quarter of fiscal year 2013, which decreased net income by \$596 million and diluted earnings per share by \$0.07.*

NOTE 23 — SUBSEQUENT EVENT

On July 17, 2014, we announced a restructuring plan to simplify our organization and align the recently acquired NDS business with our company's overall strategy. We will eliminate up to 18,000 positions over the next year, including 12,500 professional and factory positions related to the acquisition of NDS. We expect to incur pre-tax charges of approximately \$1.1 billion to \$1.6 billion in fiscal year 2015.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation
Redmond, Washington

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2014, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 31, 2014, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Seattle, Washington
July 31, 2014