

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-37845

**MICROSOFT CORPORATION**

WASHINGTON  
(STATE OF INCORPORATION)

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

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399  
(425) 882-8080  
[www.microsoft.com/investor](http://www.microsoft.com/investor)

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

Title of each class

Trading Symbol

Name of exchange on which registered

**Common stock, \$0.00000625 par value per share**  
**3.125% Notes due 2028**  
**2.625% Notes due 2033**

**MSFT**  
**MSFT**  
**MSFT**

**NASDAQ**  
**NASDAQ**  
**NASDAQ**

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

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

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

Large Accelerated Filer ☒

Non-accelerated Filer ☐

Accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of January 19, 2023
Common Stock, \$0.00000625 par value per share	7,443,803,533 shares

**NOTE 11 — INCOME TAXES****Effective Tax Rate**

Our effective tax rate was 19% and 17% for the three months ended December 31, 2022 and 2021, respectively, and 19% and 9% for the six months ended December 31, 2022 and 2021, respectively. The increase in our effective tax rate for the three months ended December 31, 2022 compared to the prior year was primarily due to a decrease in tax benefits relating to stock-based compensation. The increase in our effective tax rate for the six months ended December 31, 2022 compared to the prior year was primarily due to a \$3.3 billion net income tax benefit in the first quarter of fiscal year 2022 related to the transfer of intangible properties and a decrease in tax benefits relating to stock-based compensation.

In the first quarter of fiscal year 2022, we transferred certain intangible properties from our Puerto Rico subsidiary to the U.S. The transfer of intangible properties resulted in a \$3.3 billion net income tax benefit in the first quarter of fiscal year 2022, as the value of future U.S. tax deductions exceeded the current tax liability from the U.S. global intangible low-taxed income tax.

Our effective tax rate was lower than the U.S. federal statutory rate for the three and six months ended December 31, 2022, primarily due to earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations center in Ireland.

**Uncertain Tax Positions**

As of December 31, 2022 and June 30, 2022, unrecognized tax benefits and other income tax liabilities were \$17.1 billion and \$16.3 billion, respectively, and are included in long-term income taxes in our consolidated balance sheets.

We settled a portion of the Internal Revenue Service ("IRS") audit for tax years 2004 to 2006 in fiscal year 2011. In February 2012, the IRS withdrew its 2011 Revenue Agents Report related to unresolved issues for tax years 2004 to 2006 and reopened the audit phase of the examination. We also settled a portion of the IRS audit for tax years 2007 to 2009 in fiscal year 2016, and a portion of the IRS audit for tax years 2010 to 2013 in fiscal year 2018. In the second quarter of fiscal year 2021, we settled an additional portion of the IRS audits for tax years 2004 to 2013 and made a payment of \$1.7 billion, including tax and interest. We remain under audit for tax years 2004 to 2017.

As of December 31, 2022, the primary unresolved issues for the IRS audits relate to transfer pricing, which could have a material impact in our consolidated financial statements when the matters are resolved. We believe our allowances for income tax contingencies are adequate. We have not received a proposed assessment for the unresolved key transfer pricing issues and do not expect a final resolution of these issues in the next 12 months. Based on the information currently available, we do not anticipate a significant increase or decrease to our tax contingencies for these issues within the next 12 months.

We are subject to income tax in many jurisdictions outside the U.S. Our operations in certain jurisdictions remain subject to examination for tax years 1996 to 2022, some of which are currently under audit by local tax authorities. The resolution of each of these audits is not expected to be material to our consolidated financial statements.

**NOTE 12 — UNEARNED REVENUE**

Unearned revenue by segment was as follows:

(In millions)

	December 31, 2022	June 30, 2022
Productivity and Business Processes	\$ 20,120	\$ 24,558
Intelligent Cloud	15,822	19,371
More Personal Computing	3,684	4,479
Total	<u>\$ 39,626</u>	<u>\$ 48,408</u>