

**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 September 30, 2023

OR

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

For the Transition Period From _____ to _____

Commission File Number 001-37845

MICROSOFT CORPORATION

WASHINGTON
(STATE OF INCORPORATION)

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

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

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

Title of each class	Trading Symbol	Name of exchange on which registered
Common stock, \$0.00000625 par value per share	MSFT	NASDAQ
3.125% Notes due 2028	MSFT	NASDAQ
2.625% Notes due 2033	MSFT	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 ☒

Accelerated Filer ☐

Non-accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

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

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

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 October 19, 2023
Common Stock, \$0.00000625 par value per share	7,432,262,329 shares

MICROSOFT CORPORATION
FORM 10-Q
For the Quarter Ended September 30, 2023
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
INCOME STATEMENTS

(In millions, except per share amounts) (Unaudited)

Three Months Ended September 30,	2023	2022
Revenue:		
Product	\$ 15,535	\$ 15,741
Service and other	40,982	34,381
Total revenue	56,517	50,122
Cost of revenue:		
Product	3,531	4,302
Service and other	12,771	11,150
Total cost of revenue	16,302	15,452
Gross margin	40,215	34,670
Research and development	6,659	6,628
Sales and marketing	5,187	5,126
General and administrative	1,474	1,398
Operating income	26,895	21,518
Other income, net	389	54
Income before income taxes	27,284	21,572
Provision for income taxes	4,993	4,016
Net income	\$ 22,291	\$ 17,556
Earnings per share:		
Basic	\$ 3.00	\$ 2.35
Diluted	\$ 2.99	\$ 2.35
Weighted average shares outstanding:		
Basic	7,429	7,457
Diluted	7,462	7,485

Refer to accompanying notes.

COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)

Three Months Ended September 30,	2023	2022
Net income	<u>\$ 22,291</u>	<u>\$ 17,556</u>
Other comprehensive income (loss), net of tax:		
Net change related to derivatives	21	7
Net change related to investments	(260)	(1,897)
Translation adjustments and other	(355)	(775)
Other comprehensive loss	<u>(594)</u>	<u>(2,665)</u>
Comprehensive income	<u>\$ 21,697</u>	<u>\$ 14,891</u>

Refer to accompanying notes.

BALANCE SHEETS

(In millions) (Unaudited)

	September 30, 2023	June 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 80,452	\$ 34,704
Short-term investments	63,499	76,558
Total cash, cash equivalents, and short-term investments	143,951	111,262
Accounts receivable, net of allowance for doubtful accounts of \$512 and \$650	36,953	48,688
Inventories	3,000	2,500
Other current assets	23,682	21,807
Total current assets	207,586	184,257
Property and equipment, net of accumulated depreciation of \$69,486 and \$68,251	102,502	95,641
Operating lease right-of-use assets	15,435	14,346
Equity investments	11,423	9,879
Goodwill	67,790	67,886
Intangible assets, net	8,895	9,366
Other long-term assets	32,154	30,601
Total assets	\$ 445,785	\$ 411,976
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 19,307	\$ 18,095
Short-term debt	25,808	0
Current portion of long-term debt	3,748	5,247
Accrued compensation	6,990	11,009
Short-term income taxes	8,035	4,152
Short-term unearned revenue	46,429	50,901
Other current liabilities	14,475	14,745
Total current liabilities	124,792	104,149
Long-term debt	41,946	41,990
Long-term income taxes	22,983	25,560
Long-term unearned revenue	2,759	2,912
Deferred income taxes	470	433
Operating lease liabilities	13,487	12,728
Other long-term liabilities	18,634	17,981
Total liabilities	225,071	205,753
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,431 and 7,432	95,508	93,718
Retained earnings	132,143	118,848
Accumulated other comprehensive loss	(6,937)	(6,343)
Total stockholders' equity	220,714	206,223
Total liabilities and stockholders' equity	\$ 445,785	\$ 411,976

Refer to accompanying notes.

CASH FLOWS STATEMENTS

(In millions) (Unaudited)

Three Months Ended September 30,	2023	2022
Operations		
Net income	\$ 22,291	\$ 17,556
Adjustments to reconcile net income to net cash from operations:		
Depreciation, amortization, and other	3,921	2,790
Stock-based compensation expense	2,507	2,192
Net recognized losses (gains) on investments and derivatives	14	(22)
Deferred income taxes	(568)	(1,191)
Changes in operating assets and liabilities:		
Accounts receivable	11,034	11,729
Inventories	(505)	(543)
Other current assets	(796)	(332)
Other long-term assets	(2,013)	(666)
Accounts payable	1,214	(1,567)
Unearned revenue	(4,126)	(3,322)
Income taxes	1,425	410
Other current liabilities	(4,106)	(4,024)
Other long-term liabilities	291	188
Net cash from operations	30,583	23,198
Financing		
Proceeds from issuance of debt, maturities of 90 days or less, net	18,692	0
Proceeds from issuance of debt	7,073	0
Repayments of debt	(1,500)	(1,000)
Common stock issued	685	575
Common stock repurchased	(4,831)	(5,573)
Common stock cash dividends paid	(5,051)	(4,621)
Other, net	(307)	(264)
Net cash from (used in) financing	14,761	(10,883)
Investing		
Additions to property and equipment	(9,917)	(6,283)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(1,186)	(349)
Purchases of investments	(8,460)	(5,013)
Maturities of investments	15,718	6,662
Sales of investments	5,330	2,711
Other, net	(982)	(860)
Net cash from (used in) investing	503	(3,132)
Effect of foreign exchange rates on cash and cash equivalents	(99)	(230)
Net change in cash and cash equivalents	45,748	8,953
Cash and cash equivalents, beginning of period	34,704	13,931
Cash and cash equivalents, end of period	\$ 80,452	\$ 22,884

Refer to accompanying notes.

STOCKHOLDERS' EQUITY STATEMENTS

(In millions, except per share amounts) (Unaudited)

Three Months Ended September 30,	2023	2022
Common stock and paid-in capital		
Balance, beginning of period	\$ 93,718	\$ 86,939
Common stock issued	685	575
Common stock repurchased	(1,401)	(1,171)
Stock-based compensation expense	2,507	2,192
Other, net	(1)	0
Balance, end of period	<u>95,508</u>	<u>88,535</u>
Retained earnings		
Balance, beginning of period	118,848	84,281
Net income	22,291	17,556
Common stock cash dividends	(5,571)	(5,064)
Common stock repurchased	(3,425)	(4,399)
Balance, end of period	<u>132,143</u>	<u>92,374</u>
Accumulated other comprehensive loss		
Balance, beginning of period	(6,343)	(4,678)
Other comprehensive loss	(594)	(2,665)
Balance, end of period	<u>(6,937)</u>	<u>(7,343)</u>
Total stockholders' equity	<u>\$ 220,714</u>	<u>\$ 173,566</u>
Cash dividends declared per common share	\$ 0.75	\$ 0.68

Refer to accompanying notes.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Microsoft Corporation fiscal year 2023 Form 10-K filed with the U.S. Securities and Exchange Commission on July 27, 2023.

We have recast certain prior period amounts to conform to the current period presentation. The recast of these prior period amounts had no impact on our consolidated balance sheets, consolidated income statements, or consolidated cash flows statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated.

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 and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price of performance obligations, variable consideration, and other obligations such as product returns and refunds; loss contingencies; product warranties; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; product life cycles; useful lives of our tangible and intangible assets; allowances for doubtful accounts; the market value of, and demand for, our inventory; stock-based compensation forfeiture rates; when technological feasibility is achieved for our products; the potential outcome of uncertain tax positions that have been recognized in our consolidated financial statements or tax returns; and determining the timing and amount of impairments for investments. Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties.

Financial Instruments

Investments

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.

Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding credit losses and impairments, are recorded in other comprehensive income. Fair value is calculated based on publicly available market information or other estimates determined by management. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the extent to which the fair value is less than cost. To determine credit losses, we employ a systematic methodology that considers available quantitative and qualitative evidence. In addition, we consider specific adverse conditions related to the financial health of, and business outlook for, the investee. If 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, then a decline in fair value below cost is recorded as an impairment charge in other

income (expense), net and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

Equity investments with readily determinable fair values are measured at fair value. Equity investments without readily determinable fair values are measured using the equity method or measured at cost with adjustments for observable changes in price or impairments (referred to as the measurement alternative). We perform a qualitative assessment on a periodic basis and recognize an impairment if there are sufficient indicators that the fair value of the investment is less than carrying value. Changes in value are recorded in other income (expense), net.

Derivatives

Derivative instruments are recognized as either assets or liabilities and 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, gains and losses are recognized in other income (expense), net with offsetting gains and losses on the hedged items. Gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in other income (expense), net.

For derivative instruments designated as cash flow hedges, gains and losses are initially reported as a component of other comprehensive income and subsequently recognized in other income (expense), net with the corresponding hedged item. Gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in other income (expense), net.

For derivative instruments that are not designated as hedges, gains and losses from changes in fair values are primarily recognized in other income (expense), net.

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 in active markets. Our Level 1 investments include U.S. government securities, common and preferred stock, and 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. Our Level 2 investments include commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Our Level 2 derivative assets and liabilities include certain cleared swap contracts and over-the-counter forward, 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 assets and liabilities include investments in corporate notes and bonds, municipal securities, and goodwill and intangible assets, when they are 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 equity investments without readily determinable fair values on a nonrecurring basis. 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.

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

Contract Balances and Other Receivables

As of both September 30, 2023 and June 30, 2023, long-term accounts receivable, net of allowance for doubtful accounts, was \$4.5 billion and is included in other long-term assets in our consolidated balance sheets.

As of September 30, 2023 and June 30, 2023, other receivables related to activities to facilitate the purchase of server components were \$10.2 billion and \$9.2 billion, respectively, and are included in other current assets in our consolidated balance sheets.

We record financing receivables when we offer certain of our customers the option to acquire our software products and services offerings through a financing program in a limited number of countries. As of September 30, 2023 and June 30, 2023, our financing receivables, net were \$4.8 billion and \$5.3 billion, respectively, for short-term and long-term financing receivables, which are included in other current assets and other long-term assets in our consolidated balance sheets. We record an allowance to cover expected losses based on troubled accounts, historical experience, and other currently available evidence.

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.

The components of basic and diluted EPS were as follows:

(In millions, except earnings per share)

Three Months Ended September 30,	2023	2022
Net income available for common shareholders (A)	\$ 22,291	\$ 17,556
Weighted average outstanding shares of common stock (B)	7,429	7,457
Dilutive effect of stock-based awards	33	28
Common stock and common stock equivalents (C)	7,462	7,485
Earnings Per Share		
Basic (A/B)	\$ 3.00	\$ 2.35
Diluted (A/C)	\$ 2.99	\$ 2.35

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