

**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
<b>Common stock, \$0.00000625 par value per share</b>	<b>MSFT</b>	<b>NASDAQ</b>
<b>3.125% Notes due 2028</b>	<b>MSFT</b>	<b>NASDAQ</b>
<b>2.625% Notes due 2033</b>	<b>MSFT</b>	<b>NASDAQ</b>

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

**MICROSOFT CORPORATION**  
**FORM 10-Q**  
**For the Quarter Ended December 31, 2022**  
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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**INCOME STATEMENTS**

(In millions, except per share amounts) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Revenue:				
Product	\$ 16,517	\$ 20,779	\$ 32,258	\$ 37,410
Service and other	36,230	30,949	70,611	59,635
Total revenue	52,747	51,728	102,869	97,045
Cost of revenue:				
Product	5,690	6,331	9,992	10,123
Service and other	11,798	10,629	22,948	20,483
Total cost of revenue	17,488	16,960	32,940	30,606
Gross margin	35,259	34,768	69,929	66,439
Research and development	6,844	5,758	13,472	11,357
Sales and marketing	5,679	5,379	10,805	9,926
General and administrative	2,337	1,384	3,735	2,671
Operating income	20,399	22,247	41,917	42,485
Other income (expense), net	(60)	268	(6)	554
Income before income taxes	20,339	22,515	41,911	43,039
Provision for income taxes	3,914	3,750	7,930	3,769
Net income	\$ 16,425	\$ 18,765	\$ 33,981	\$ 39,270
Earnings per share:				
Basic	\$ 2.20	\$ 2.50	\$ 4.56	\$ 5.23
Diluted	\$ 2.20	\$ 2.48	\$ 4.54	\$ 5.19
Weighted average shares outstanding:				
Basic	7,451	7,505	7,454	7,509
Diluted	7,473	7,555	7,479	7,561

Refer to accompanying notes.

## COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net income	<u>\$ 16,425</u>	<u>\$ 18,765</u>	<u>\$ 33,981</u>	<u>\$ 39,270</u>
Other comprehensive income (loss), net of tax:				
Net change related to derivatives	(32)	0	(25)	2
Net change related to investments	348	(743)	(1,549)	(1,165)
Translation adjustments and other	570	(103)	(205)	(222)
Other comprehensive income (loss)	<u>886</u>	<u>(846)</u>	<u>(1,779)</u>	<u>(1,385)</u>
Comprehensive income	<u>\$ 17,311</u>	<u>\$ 17,919</u>	<u>\$ 32,202</u>	<u>\$ 37,885</u>

Refer to accompanying notes.

## BALANCE SHEETS

(In millions) (Unaudited)

	December 31, 2022	June 30, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,646	\$ 13,931
Short-term investments	83,862	90,826
Total cash, cash equivalents, and short-term investments	99,508	104,757
Accounts receivable, net of allowance for doubtful accounts of \$485 and \$633	35,833	44,261
Inventories	2,980	3,742
Other current assets	19,502	16,924
Total current assets	157,823	169,684
Property and equipment, net of accumulated depreciation of \$63,459 and \$59,660	82,755	74,398
Operating lease right-of-use assets	13,624	13,148
Equity investments	7,097	6,891
Goodwill	67,905	67,524
Intangible assets, net	10,354	11,298
Other long-term assets	24,994	21,897
Total assets	\$ 364,552	\$ 364,840
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 15,354	\$ 19,000
Current portion of long-term debt	3,997	2,749
Accrued compensation	9,030	10,661
Short-term income taxes	3,553	4,067
Short-term unearned revenue	36,982	45,538
Other current liabilities	12,802	13,067
Total current liabilities	81,718	95,082
Long-term debt	44,119	47,032
Long-term income taxes	24,169	26,069
Long-term unearned revenue	2,644	2,870
Deferred income taxes	289	230
Operating lease liabilities	11,998	11,489
Other long-term liabilities	16,479	15,526
Total liabilities	181,416	198,298
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,447 and 7,464	90,225	86,939
Retained earnings	99,368	84,281
Accumulated other comprehensive loss	(6,457)	(4,678)
Total stockholders' equity	183,136	166,542
Total liabilities and stockholders' equity	\$ 364,552	\$ 364,840

Refer to accompanying notes.

## CASH FLOWS STATEMENTS

(In millions) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
<b>Operations</b>				
Net income	\$ 16,425	\$ 18,765	\$ 33,981	\$ 39,270
Adjustments to reconcile net income to net cash from operations:				
Depreciation, amortization, and other	3,648	3,496	6,438	6,708
Stock-based compensation expense	2,538	1,897	4,730	3,599
Net recognized losses (gains) on investments and derivatives	214	(307)	192	(671)
Deferred income taxes	(1,305)	183	(2,496)	(5,787)
Changes in operating assets and liabilities:				
Accounts receivable	(3,164)	(5,543)	8,565	4,943
Inventories	1,305	394	762	(383)
Other current assets	(392)	830	(724)	1,770
Other long-term assets	(65)	(908)	(731)	(1,506)
Accounts payable	(2,058)	235	(3,625)	(236)
Unearned revenue	(5,186)	(4,343)	(8,508)	(7,228)
Income taxes	(2,863)	(2,057)	(2,453)	596
Other current liabilities	1,819	1,745	(2,205)	(2,398)
Other long-term liabilities	257	93	445	343
Net cash from operations	11,173	14,480	34,371	39,020
<b>Financing</b>				
Repayments of debt	(750)	0	(1,750)	(4,826)
Common stock issued	243	291	818	903
Common stock repurchased	(5,459)	(7,433)	(11,032)	(15,117)
Common stock cash dividends paid	(5,066)	(4,652)	(9,687)	(8,858)
Other, net	(317)	(192)	(581)	(364)
Net cash used in financing	(11,349)	(11,986)	(22,232)	(28,262)
<b>Investing</b>				
Additions to property and equipment	(6,274)	(5,865)	(12,557)	(11,675)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(679)	(850)	(1,028)	(2,056)
Purchases of investments	(11,599)	(2,505)	(16,612)	(12,814)
Maturities of investments	6,928	5,253	13,590	14,115
Sales of investments	4,775	2,895	7,486	8,525
Other, net	(301)	(89)	(1,161)	(506)
Net cash used in investing	(7,150)	(1,161)	(10,282)	(4,411)
Effect of foreign exchange rates on cash and cash equivalents	88	106	(142)	33
Net change in cash and cash equivalents	(7,238)	1,439	1,715	6,380
Cash and cash equivalents, beginning of period	22,884	19,165	13,931	14,224
Cash and cash equivalents, end of period	\$ 15,646	\$ 20,604	\$ 15,646	\$ 20,604

Refer to accompanying notes.

## STOCKHOLDERS' EQUITY STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
<b>Common stock and paid-in capital</b>				
Balance, beginning of period	\$ 88,535	\$ 83,751	\$ 86,939	\$ 83,111
Common stock issued	243	291	818	903
Common stock repurchased	(1,090)	(1,411)	(2,261)	(3,088)
Stock-based compensation expense	2,538	1,897	4,730	3,599
Other, net	(1)	0	(1)	3
Balance, end of period	90,225	84,528	90,225	84,528
<b>Retained earnings</b>				
Balance, beginning of period	92,374	66,944	84,281	57,055
Net income	16,425	18,765	33,981	39,270
Common stock cash dividends	(5,059)	(4,646)	(10,123)	(9,297)
Common stock repurchased	(4,372)	(6,018)	(8,771)	(11,983)
Balance, end of period	99,368	75,045	99,368	75,045
<b>Accumulated other comprehensive income (loss)</b>				
Balance, beginning of period	(7,343)	1,283	(4,678)	1,822
Other comprehensive income (loss)	886	(846)	(1,779)	(1,385)
Balance, end of period	(6,457)	437	(6,457)	437
Total stockholders' equity	\$ 183,136	\$ 160,010	\$ 183,136	\$ 160,010
Cash dividends declared per common share	\$ 0.68	\$ 0.62	\$ 1.36	\$ 1.24

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 2022 Form 10-K filed with the U.S. Securities and Exchange Commission on July 28, 2022.

#### **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 ("SSP") 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.

In July 2022, we completed an assessment of the useful lives of our server and network equipment. Due to investments in software that increased efficiencies in how we operate our server and network equipment, as well as advances in technology, we determined we should increase the estimated useful lives of both server and network equipment from four years to six years. This change in accounting estimate was effective beginning fiscal year 2023. Based on the carrying amount of server and network equipment included in property and equipment, net as of June 30, 2022, the effect of this change in estimate for the three months ended December 31, 2022 was an increase in operating income of \$945 million and net income of \$768 million, or \$0.10 per both basic and diluted share. The effect of this change for the six months ended December 31, 2022 was an increase in operating income of \$2.0 billion and net income of \$1.6 billion, or \$0.22 per both basic and diluted share.

#### **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 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 December 31, 2022 and June 30, 2022, other receivables due from suppliers were \$545 million and \$1.0 billion, respectively, and are included in accounts receivable, net in our consolidated balance sheets.

As of both December 31, 2022 and June 30, 2022, long-term accounts receivable, net of allowance for doubtful accounts, was \$4.2 billion and \$3.8 billion, respectively, and is included in other long-term 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 December 31, 2022 and June 30, 2022, our financing receivables, net were \$3.1 billion and \$4.1 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.

### Employee Severance

On January 18, 2023, we announced a decision to reduce our overall workforce by approximately 10,000 jobs through the third quarter of fiscal year 2023. During the three months ended December 31, 2022, we recorded \$800 million of employee severance expenses related to these job eliminations as part of an ongoing employee benefit plan. These employee severance expenses were included in general and administrative expenses in our consolidated income statements and allocated to our segments based on relative gross margin. Refer to Note 17 – Segment Information and Geographic Data for further information.

## 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 December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net income available for common shareholders (A)	\$ 16,425	\$ 18,765	\$ 33,981	\$ 39,270
Weighted average outstanding shares of common stock (B)	7,451	7,505	7,454	7,509
Dilutive effect of stock-based awards	22	50	25	52
Common stock and common stock equivalents (C)	7,473	7,555	7,479	7,561
<b>Earnings Per Share</b>				
Basic (A/B)	\$ 2.20	\$ 2.50	\$ 4.56	\$ 5.23
Diluted (A/C)	\$ 2.20	\$ 2.48	\$ 4.54	\$ 5.19

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