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 March 31, 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	**91-1144442**
(STATE OF INCORPORATION)	**(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 April 20, 2023**
Common Stock, $0.00000625 par value per share	7,435,487,575 shares

MICROSOFT CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 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 March 31,		Nine Months Ended March 31,	
	2023	**2022**	**2023**	**2022**
Revenue:				
Product	**$ 15,588**	$ 17,366	**$ 47,846**	$ 54,776
Service and other	**37,269**	31,994	**107,880**	91,629
Total revenue	**52,857**	49,360	**155,726**	146,405
Cost of revenue:				
Product	**3,941**	4,584	**13,933**	14,707
Service and other	**12,187**	11,031	**35,135**	31,514
Total cost of revenue	**16,128**	15,615	**49,068**	46,221
Gross margin	**36,729**	33,745	**106,658**	100,184
Research and development	**6,984**	6,306	**20,456**	17,663
Sales and marketing	**5,750**	5,595	**16,555**	15,521
General and administrative	**1,643**	1,480	**5,378**	4,151
Operating income	**22,352**	20,364	**64,269**	62,849
Other income (expense), net	**321**	(174)	**315**	380
Income before income taxes	**22,673**	20,190	**64,584**	63,229
Provision for income taxes	**4,374**	3,462	**12,304**	7,231
Net income	**$ 18,299**	$ 16,728	**$ 52,280**	$ 55,998
Earnings per share:				
Basic	**$ 2.46**	$ 2.23	**$ 7.02**	$ 7.46
Diluted	**$ 2.45**	$ 2.22	**$ 6.99**	$ 7.41
Weighted average shares outstanding:				
Basic	**7,441**	7,493	**7,450**	7,504
Diluted	**7,464**	7,534	**7,474**	7,552

Refer to accompanying notes.

COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	**2022**	**2023**	**2022**
Net income	**$ 18,299**	$ 16,728	**$ 52,280**	$ 55,998
Other comprehensive income (loss), net of tax:				
Net change related to derivatives	**(9)**	6	**(34)**	8
Net change related to investments	**753**	(2,882)	**(796)**	(4,047)
Translation adjustments and other	**69**	(37)	**(136)**	(259)
Other comprehensive income (loss)	**813**	(2,913)	**(966)**	(4,298)
Comprehensive income	**$ 19,112**	$ 13,815	**$ 51,314**	$ 51,700

Refer to accompanying notes.

BALANCE SHEETS

(In millions) (Unaudited)

	March 31, 2023	June 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 26,562**	$ 13,931
Short-term investments	**77,865**	90,826
Total cash, cash equivalents, and short-term investments	**104,427**	104,757
Accounts receivable, net of allowance for doubtful accounts of **$495** and $633	**37,420**	44,261
Inventories	**2,877**	3,742
Other current assets	**19,165**	16,924
Total current assets	**163,889**	169,684
Property and equipment, net of accumulated depreciation of **$65,998** and $59,660	**88,132**	74,398
Operating lease right-of-use assets	**13,879**	13,148
Equity investments	**9,415**	6,891
Goodwill	**67,940**	67,524
Intangible assets, net	**9,879**	11,298
Other long-term assets	**26,954**	21,897
Total assets	**$ 380,088**	$ 364,840
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 15,305**	$ 19,000
Current portion of long-term debt	**6,245**	2,749
Accrued compensation	**10,411**	10,661
Short-term income taxes	**4,163**	4,067
Short-term unearned revenue	**36,903**	45,538
Other current liabilities	**12,664**	13,067
Total current liabilities	**85,691**	95,082
Long-term debt	**41,965**	47,032
Long-term income taxes	**25,000**	26,069
Long-term unearned revenue	**2,698**	2,870
Deferred income taxes	**302**	230
Operating lease liabilities	**12,312**	11,489
Other long-term liabilities	**17,437**	15,526
Total liabilities	**185,405**	198,298
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding **7,437** and 7,464	**92,093**	86,939
Retained earnings	**108,234**	84,281
Accumulated other comprehensive loss	**(5,644)**	(4,678)
Total stockholders' equity	**194,683**	166,542
Total liabilities and stockholders' equity	**$ 380,088**	$ 364,840

Refer to accompanying notes.

CASH FLOWS STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	**2022**	**2023**	**2022**
Operations				
Net income	**$ 18,299**	$ 16,728	**$ 52,280**	$ 55,998
Adjustments to reconcile net income to net cash from operations:				
Depreciation, amortization, and other	**3,549**	3,773	**9,987**	10,481
Stock-based compensation expense	**2,465**	1,906	**7,195**	5,505
Net recognized losses (gains) on investments and derivatives	**(40)**	105	**152**	(566)
Deferred income taxes	**(1,675)**	(198)	**(4,171)**	(5,985)
Changes in operating assets and liabilities:				
Accounts receivable	**(1,408)**	857	**7,157**	5,800
Inventories	**106**	(279)	**868**	(662)
Other current assets	**1,152**	91	**428**	1,861
Other long-term assets	**(554)**	(724)	**(1,285)**	(2,230)
Accounts payable	**(407)**	520	**(4,032)**	284
Unearned revenue	**(181)**	(209)	**(8,689)**	(7,437)
Income taxes	**1,414**	1,091	**(1,039)**	1,687
Other current liabilities	**1,715**	1,287	**(490)**	(1,111)
Other long-term liabilities	**6**	438	**451**	781
Net cash from operations	**24,441**	25,386	**58,812**	64,406
Financing				
Repayments of debt	**0**	(4,197)	**(1,750)**	(9,023)
Common stock issued	**536**	477	**1,354**	1,380
Common stock repurchased	**(5,509)**	(8,822)	**(16,541)**	(23,939)
Common stock cash dividends paid	**(5,059)**	(4,645)	**(14,746)**	(13,503)
Other, net	**(258)**	(158)	**(839)**	(522)
Net cash used in financing	**(10,290)**	(17,345)	**(32,522)**	(45,607)
Investing				
Additions to property and equipment	**(6,607)**	(5,340)	**(19,164)**	(17,015)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	**(301)**	(18,719)	**(1,329)**	(20,775)
Purchases of investments	**(9,063)**	(8,723)	**(25,675)**	(21,537)
Maturities of investments	**13,154**	1,099	**26,744**	15,214
Sales of investments	**1,239**	16,693	**8,725**	25,218
Other, net	**(1,686)**	(1,181)	**(2,847)**	(1,687)
Net cash used in investing	**(3,264)**	(16,171)	**(13,546)**	(20,582)
Effect of foreign exchange rates on cash and cash equivalents	**29**	24	**(113)**	57
Net change in cash and cash equivalents	**10,916**	(8,106)	**12,631**	(1,726)
Cash and cash equivalents, beginning of period	**15,646**	20,604	**13,931**	14,224
Cash and cash equivalents, end of period	**$ 26,562**	$ 12,498	**$ 26,562**	$ 12,498

Refer to accompanying notes.

STOCKHOLDERS' EQUITY STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
Common stock and paid-in capital				
Balance, beginning of period	**$ 90,225**	$ 84,528	**$ 86,939**	$ 83,111
Common stock issued	**536**	477	**1,354**	1,380
Common stock repurchased	**(1,133)**	(1,313)	**(3,394)**	(4,401)
Stock-based compensation expense	**2,465**	1,906	**7,195**	5,505
Other, net	**0**	169	**(1)**	172
Balance, end of period	**92,093**	85,767	**92,093**	85,767
Retained earnings				
Balance, beginning of period	**99,368**	75,045	**84,281**	57,055
Net income	**18,299**	16,728	**52,280**	55,998
Common stock cash dividends	**(5,053)**	(4,634)	**(15,176)**	(13,931)
Common stock repurchased	**(4,380)**	(7,506)	**(13,151)**	(19,489)
Balance, end of period	**108,234**	79,633	**108,234**	79,633
Accumulated other comprehensive loss				
Balance, beginning of period	**(6,457)**	437	**(4,678)**	1,822
Other comprehensive income (loss)	**813**	(2,913)	**(966)**	(4,298)
Balance, end of period	**(5,644)**	(2,476)	**(5,644)**	(2,476)
Total stockholders' equity	**$ 194,683**	$ 162,924	**$ 194,683**	$ 162,924
Cash dividends declared per common share	**$ 0.68**	$ 0.62	**$ 2.04**	$ 1.86

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 March 31, 2023 was an increase in operating income of $885 million and net income of $720 million, or $0.10 per both basic and diluted share. The effect of this change for the nine months ended March 31, 2023 was an increase in operating income of $2.9 billion and net income of $2.3 billion, or $0.32 and $0.31 per basic and diluted share, respectively.

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 March 31, 2023 and June 30, 2022, other receivables due from suppliers were $717 million and $1.0 billion, respectively, and are included in accounts receivable, net in our consolidated balance sheets.

As of March 31, 2023 and June 30, 2022, long-term accounts receivable, net of allowance for doubtful accounts, was $4.3 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 March 31, 2023 and June 30, 2022, our financing receivables, net were $2.7 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
Net income available for common shareholders (A)	**$ 18,299**	$ 16,728	**$ 52,280**	$ 55,998
Weighted average outstanding shares of common stock (B)	**7,441**	7,493	**7,450**	7,504
Dilutive effect of stock-based awards	**23**	41	**24**	48
Common stock and common stock equivalents (C)	**7,464**	7,534	**7,474**	7,552
Earnings Per Share				
Basic (A/B)	**$ 2.46**	$ 2.23	**$ 7.02**	$ 7.46
Diluted (A/C)	**$ 2.45**	$ 2.22	**$ 6.99**	$ 7.41

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