

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549  
**FORM 10-K**

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

**For the Fiscal Year Ended June 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
<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>

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of December 31, 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1.8 trillion based on the closing sale price as reported on the NASDAQ National Market System. As of July 24, 2023, there were 7,429,763,722 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

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## SUMMARY RESULTS OF OPERATIONS

(In millions, except percentages and per share amounts)	2023	2022	Percentage Change
Revenue	\$ 211,915	\$ 198,270	7%
Gross margin	146,052	135,620	8%
Operating income	88,523	83,383	6%
Net income	72,361	72,738	(1)%
Diluted earnings per share	9.68	9.65	0%
Adjusted gross margin (non-GAAP)	146,204	135,620	8%
Adjusted operating income (non-GAAP)	89,694	83,383	8%
Adjusted net income (non-GAAP)	73,307	69,447	6%
Adjusted diluted earnings per share (non-GAAP)	9.81	9.21	7%

Adjusted gross margin, operating income, net income, and diluted earnings per share ("EPS") are non-GAAP financial measures. Current year non-GAAP financial measures exclude the impact of the Q2 charge, which includes employee severance expenses, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. Prior year non-GAAP financial measures exclude the net income tax benefit related to transfer of intangible properties in the first quarter of fiscal year 2022. Refer to Note 12 – Income Taxes of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion. Refer to the Non-GAAP Financial Measures section below for a reconciliation of our financial results reported in accordance with GAAP to non-GAAP financial results.

### ***Fiscal Year 2023 Compared with Fiscal Year 2022***

Revenue increased \$13.6 billion or 7% driven by growth in Intelligent Cloud and Productivity and Business Processes, offset in part by a decline in More Personal Computing. Intelligent Cloud revenue increased driven by Azure and other cloud services. Productivity and Business Processes revenue increased driven by Office 365 Commercial and LinkedIn. More Personal Computing revenue decreased driven by Windows and Devices.

Cost of revenue increased \$3.2 billion or 5% driven by growth in Microsoft Cloud, offset in part by the change in accounting estimate.

Gross margin increased \$10.4 billion or 8% driven by growth in Intelligent Cloud and Productivity and Business Processes and the change in accounting estimate, offset in part by a decline in More Personal Computing.

- Gross margin percentage increased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage decreased 1 point driven by declines in Intelligent Cloud and More Personal Computing, offset in part by sales mix shift between our segments.
- Microsoft Cloud gross margin percentage increased 2 points to 72%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage decreased slightly driven by a decline in Azure and other cloud services and sales mix shift to Azure and other cloud services, offset in part by improvement in Office 365 Commercial.

Operating expenses increased \$5.3 billion or 10% driven by employee severance expenses, 2 points of growth from the Nuance and Xandr acquisitions, investments in cloud engineering, and LinkedIn.

Operating income increased \$5.1 billion or 6% driven by growth in Productivity and Business Processes and Intelligent Cloud and the change in accounting estimate, offset in part by a decline in More Personal Computing.

Revenue, gross margin, and operating income included an unfavorable foreign currency impact of 4%, 4%, and 6%, respectively. Cost of revenue and operating expenses both included a favorable foreign currency impact of 2%.

Current year gross margin, operating income, net income, and diluted EPS were negatively impacted by the Q2 charge, which resulted in decreases of \$152 million, \$1.2 billion, \$946 million, and \$0.13, respectively. Prior year net income and diluted EPS were positively impacted by the net tax benefit related to the transfer of intangible properties, which resulted in an increase to net income and diluted EPS of \$3.3 billion and \$0.44, respectively.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INCOME STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	2023	2022	2021
Revenue:			
Product	\$ 64,699	\$ 72,732	\$ 71,074
Service and other	147,216	125,538	97,014
Total revenue	211,915	198,270	168,088
Cost of revenue:			
Product	17,804	19,064	18,219
Service and other	48,059	43,586	34,013
Total cost of revenue	65,863	62,650	52,232
Gross margin	146,052	135,620	115,856
Research and development	27,195	24,512	20,716
Sales and marketing	22,759	21,825	20,117
General and administrative	7,575	5,900	5,107
Operating income	88,523	83,383	69,916
Other income, net	788	333	1,186
Income before income taxes	89,311	83,716	71,102
Provision for income taxes	16,950	10,978	9,831
Net income	\$ 72,361	\$ 72,738	\$ 61,271
Earnings per share:			
Basic	\$ 9.72	\$ 9.70	\$ 8.12
Diluted	\$ 9.68	\$ 9.65	\$ 8.05
Weighted average shares outstanding:			
Basic	7,446	7,496	7,547
Diluted	7,472	7,540	7,608

Refer to accompanying notes.

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## COMPREHENSIVE INCOME STATEMENTS

(In millions)

Year Ended June 30,	2023	2022	2021
Net income	<u>\$ 72,361</u>	<u>\$ 72,738</u>	<u>\$ 61,271</u>
Other comprehensive income (loss), net of tax:			
Net change related to derivatives	(14)	6	19
Net change related to investments	(1,444)	(5,360)	(2,266)
Translation adjustments and other	(207)	(1,146)	873
Other comprehensive loss	<u>(1,665)</u>	<u>(6,500)</u>	<u>(1,374)</u>
Comprehensive income	<u>\$ 70,696</u>	<u>\$ 66,238</u>	<u>\$ 59,897</u>

Refer to accompanying notes.

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## BALANCE SHEETS

(In millions)

June 30,	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,704	\$ 13,931
Short-term investments	76,558	90,826
Total cash, cash equivalents, and short-term investments	111,262	104,757
Accounts receivable, net of allowance for doubtful accounts of \$650 and \$633	48,688	44,261
Inventories	2,500	3,742
Other current assets	21,807	16,924
Total current assets	184,257	169,684
Property and equipment, net of accumulated depreciation of \$68,251 and \$59,660	95,641	74,398
Operating lease right-of-use assets	14,346	13,148
Equity investments	9,879	6,891
Goodwill	67,886	67,524
Intangible assets, net	9,366	11,298
Other long-term assets	30,601	21,897
Total assets	\$ 411,976	\$ 364,840
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 18,095	\$ 19,000
Current portion of long-term debt	5,247	2,749
Accrued compensation	11,009	10,661
Short-term income taxes	4,152	4,067
Short-term unearned revenue	50,901	45,538
Other current liabilities	14,745	13,067
Total current liabilities	104,149	95,082
Long-term debt	41,990	47,032
Long-term income taxes	25,560	26,069
Long-term unearned revenue	2,912	2,870
Deferred income taxes	433	230
Operating lease liabilities	12,728	11,489
Other long-term liabilities	17,981	15,526
Total liabilities	205,753	198,298
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,432 and 7,464	93,718	86,939
Retained earnings	118,848	84,281
Accumulated other comprehensive loss	(6,343)	(4,678)
Total stockholders' equity	206,223	166,542
Total liabilities and stockholders' equity	\$ 411,976	\$ 364,840

Refer to accompanying notes.

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## CASH FLOWS STATEMENTS

(In millions)

Year Ended June 30,	2023	2022	2021
<b>Operations</b>			
Net income	\$ 72,361	\$ 72,738	\$ 61,271
Adjustments to reconcile net income to net cash from operations:			
Depreciation, amortization, and other	13,861	14,460	11,686
Stock-based compensation expense	9,611	7,502	6,118
Net recognized losses (gains) on investments and derivatives	196	(409)	(1,249)
Deferred income taxes	(6,059)	(5,702)	(150)
Changes in operating assets and liabilities:			
Accounts receivable	(4,087)	(6,834)	(6,481)
Inventories	1,242	(1,123)	(737)
Other current assets	(1,991)	(709)	(932)
Other long-term assets	(2,833)	(2,805)	(3,459)
Accounts payable	(2,721)	2,943	2,798
Unearned revenue	5,535	5,109	4,633
Income taxes	(358)	696	(2,309)
Other current liabilities	2,272	2,344	4,149
Other long-term liabilities	553	825	1,402
Net cash from operations	87,582	89,035	76,740
<b>Financing</b>			
Cash premium on debt exchange	0	0	(1,754)
Repayments of debt	(2,750)	(9,023)	(3,750)
Common stock issued	1,866	1,841	1,693
Common stock repurchased	(22,245)	(32,696)	(27,385)
Common stock cash dividends paid	(19,800)	(18,135)	(16,521)
Other, net	(1,006)	(863)	(769)
Net cash used in financing	(43,935)	(58,876)	(48,486)
<b>Investing</b>			
Additions to property and equipment	(28,107)	(23,886)	(20,622)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(1,670)	(22,038)	(8,909)
Purchases of investments	(37,651)	(26,456)	(62,924)
Maturities of investments	33,510	16,451	51,792
Sales of investments	14,354	28,443	14,008
Other, net	(3,116)	(2,825)	(922)
Net cash used in investing	(22,680)	(30,311)	(27,577)
Effect of foreign exchange rates on cash and cash equivalents	(194)	(141)	(29)
Net change in cash and cash equivalents	20,773	(293)	648
Cash and cash equivalents, beginning of period	13,931	14,224	13,576
Cash and cash equivalents, end of period	\$ 34,704	\$ 13,931	\$ 14,224

Refer to accompanying notes.

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## STOCKHOLDERS' EQUITY STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	2023	2022	2021
<b>Common stock and paid-in capital</b>			
Balance, beginning of period	\$ 86,939	\$ 83,111	\$ 80,552
Common stock issued	1,866	1,841	1,963
Common stock repurchased	(4,696)	(5,688)	(5,539)
Stock-based compensation expense	9,611	7,502	6,118
Other, net	(2)	173	17
Balance, end of period	93,718	86,939	83,111
<b>Retained earnings</b>			
Balance, beginning of period	84,281	57,055	34,566
Net income	72,361	72,738	61,271
Common stock cash dividends	(20,226)	(18,552)	(16,871)
Common stock repurchased	(17,568)	(26,960)	(21,879)
Cumulative effect of accounting changes	0	0	(32)
Balance, end of period	118,848	84,281	57,055
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	(4,678)	1,822	3,186
Other comprehensive loss	(1,665)	(6,500)	(1,374)
Cumulative effect of accounting changes	0	0	10
Balance, end of period	(6,343)	(4,678)	1,822
Total stockholders' equity	\$ 206,223	\$ 166,542	\$ 141,988
Cash dividends declared per common share	\$ 2.72	\$ 2.48	\$ 2.24

Refer to accompanying notes.

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Item 8**NOTE 3 — OTHER INCOME (EXPENSE), NET**

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

(In millions)

Year Ended June 30,	2023	2022	2021
Interest and dividends income	\$ 2,994	\$ 2,094	\$ 2,131
Interest expense	(1,968)	(2,063)	(2,346)
Net recognized gains on investments	260	461	1,232
Net gains (losses) on derivatives	(456)	(52)	17
Net gains (losses) on foreign currency remeasurements	181	(75)	54
Other, net	(223)	(32)	98
Total	<u>\$ 788</u>	<u>\$ 333</u>	<u>\$ 1,186</u>

**Net Recognized Gains (Losses) on Investments**

Net recognized gains (losses) on debt investments were as follows:

(In millions)

Year Ended June 30,	2023	2022	2021
Realized gains from sales of available-for-sale securities	\$ 36	\$ 162	\$ 105
Realized losses from sales of available-for-sale securities	(124)	(138)	(40)
Impairments and allowance for credit losses	(10)	(81)	(2)
Total	<u>\$ (98)</u>	<u>\$ (57)</u>	<u>\$ 63</u>

Net recognized gains (losses) on equity investments were as follows:

(In millions)

Year Ended June 30,	2023	2022	2021
Net realized gains on investments sold	\$ 75	\$ 29	\$ 123
Net unrealized gains on investments still held	303	509	1,057
Impairments of investments	(20)	(20)	(11)
Total	<u>\$ 358</u>	<u>\$ 518</u>	<u>\$ 1,169</u>



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Item 8NOTE 4 — INVESTMENTS**Investment Components**

The components of investments were as follows:

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
<b>June 30, 2023</b>								
<b>Changes in Fair Value Recorded in Other Comprehensive Income</b>								
Commercial paper	Level 2	\$ 16,589	\$ 0	\$ 0	\$ 16,589	\$ 12,231	\$ 4,358	\$ 0
Certificates of deposit	Level 2	2,701	0	0	2,701	2,657	44	0
U.S. government securities	Level 1	65,237	2	(3,870)	61,369	2,991	58,378	0
U.S. agency securities	Level 2	2,703	0	0	2,703	894	1,809	0
Foreign government bonds	Level 2	498	1	(24)	475	0	475	0
Mortgage- and asset-backed securities	Level 2	824	1	(39)	786	0	786	0
Corporate notes and bonds	Level 2	10,809	8	(583)	10,234	0	10,234	0
Corporate notes and bonds	Level 3	120	0	0	120	0	120	0
Municipal securities	Level 2	285	1	(18)	268	7	261	0
Municipal securities	Level 3	103	0	(16)	87	0	87	0
Total debt investments		<u>\$ 99,869</u>	<u>\$ 13</u>	<u>\$ (4,550)</u>	<u>\$ 95,332</u>	<u>\$ 18,780</u>	<u>\$ 76,552</u>	<u>\$ 0</u>
<b>Changes in Fair Value Recorded in Net Income</b>								
Equity investments	Level 1				\$ 10,138	\$ 7,446	\$ 0	\$ 2,692
Equity investments	Other				7,187	0	0	7,187
Total equity investments					<u>\$ 17,325</u>	<u>\$ 7,446</u>	<u>\$ 0</u>	<u>\$ 9,879</u>
Cash					<u>\$ 8,478</u>	<u>\$ 8,478</u>	<u>\$ 0</u>	<u>\$ 0</u>
Derivatives, net <sup>(a)</sup>					<u>6</u>	<u>0</u>	<u>6</u>	<u>0</u>
Total					<u>\$ 121,141</u>	<u>\$ 34,704</u>	<u>\$ 76,558</u>	<u>\$ 9,879</u>

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(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
<b>June 30, 2022</b>								
<b>Changes in Fair Value Recorded in Other Comprehensive Income</b>								
Commercial paper	Level 2	\$ 2,500	\$ 0	\$ 0	\$ 2,500	\$ 2,498	\$ 2	\$ 0
Certificates of deposit	Level 2	2,071	0	0	2,071	2,032	39	0
U.S. government securities	Level 1	79,696	29	(2,178)	77,547	9	77,538	0
U.S. agency securities	Level 2	419	0	(9)	410	0	410	0
Foreign government bonds	Level 2	506	0	(24)	482	0	482	0
Mortgage- and asset-backed securities	Level 2	727	1	(30)	698	0	698	0
Corporate notes and bonds	Level 2	11,661	4	(554)	11,111	0	11,111	0
Corporate notes and bonds	Level 3	67	0	0	67	0	67	0
Municipal securities	Level 2	368	19	(13)	374	0	374	0
Municipal securities	Level 3	103	0	(6)	97	0	97	0
Total debt investments		<u>\$ 98,118</u>	<u>\$ 53</u>	<u>\$ (2,814)</u>	<u>\$ 95,357</u>	<u>\$ 4,539</u>	<u>\$ 90,818</u>	<u>\$ 0</u>
<b>Changes in Fair Value Recorded in Net Income</b>								
Equity investments	Level 1				\$ 1,590	\$ 1,134	\$ 0	\$ 456
Equity investments	Other				6,435	0	0	6,435
Total equity investments					<u>\$ 8,025</u>	<u>\$ 1,134</u>	<u>\$ 0</u>	<u>\$ 6,891</u>
Cash					<u>\$ 8,258</u>	<u>\$ 8,258</u>	<u>\$ 0</u>	<u>\$ 0</u>
Derivatives, net <sup>(a)</sup>					<u>8</u>	<u>0</u>	<u>8</u>	<u>0</u>
Total					<u>\$ 111,648</u>	<u>\$ 13,931</u>	<u>\$ 90,826</u>	<u>\$ 6,891</u>

(a) Refer to Note 5 – Derivatives for further information on the fair value of our derivative instruments.

Equity investments presented as “Other” in the tables above include investments without readily determinable fair values measured using the equity method or measured at cost with adjustments for observable changes in price or impairments, and investments measured at fair value using net asset value as a practical expedient which are not categorized in the fair value hierarchy. As of June 30, 2023 and 2022, equity investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments were \$4.2 billion and \$3.8 billion, respectively.

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### Unrealized Losses on Debt Investments

Debt investments 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, 2023						
U.S. government and agency securities	\$ 7,950	\$ (336)	\$ 45,273	\$ (3,534)	\$ 53,223	\$ (3,870)
Foreign government bonds	77	(5)	391	(19)	468	(24)
Mortgage- and asset-backed securities	257	(5)	412	(34)	669	(39)
Corporate notes and bonds	2,326	(49)	7,336	(534)	9,662	(583)
Municipal securities	111	(3)	186	(31)	297	(34)
Total	\$ 10,721	\$ (398)	\$ 53,598	\$ (4,152)	\$ 64,319	\$ (4,550)

	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, 2022						
U.S. government and agency securities	\$ 59,092	\$ (1,835)	\$ 2,210	\$ (352)	\$ 61,302	\$ (2,187)
Foreign government bonds	418	(18)	27	(6)	445	(24)
Mortgage- and asset-backed securities	510	(26)	41	(4)	551	(30)
Corporate notes and bonds	9,443	(477)	786	(77)	10,229	(554)
Municipal securities	178	(12)	74	(7)	252	(19)
Total	\$ 69,641	\$ (2,368)	\$ 3,138	\$ (446)	\$ 72,779	\$ (2,814)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent impairments based on our evaluation of available evidence.

### Debt Investment Maturities

(In millions)	Adjusted Cost Basis	Estimated Fair Value
<b>June 30, 2023</b>		
Due in one year or less	\$ 38,182	\$ 38,048
Due after one year through five years	47,127	44,490
Due after five years through 10 years	13,262	11,628
Due after 10 years	1,298	1,166
<b>Total</b>	<b>\$ 99,869</b>	<b>\$ 95,332</b>

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The following table presents the notional amounts of our outstanding derivative instruments measured in U.S. dollar equivalents:

(In millions)	June 30, 2023	June 30, 2022
<b>Designated as Hedging Instruments</b>		
Foreign exchange contracts purchased	\$ 1,492	\$ 635
Interest rate contracts purchased	1,078	1,139
<b>Not Designated as Hedging Instruments</b>		
Foreign exchange contracts purchased	7,874	10,322
Foreign exchange contracts sold	25,159	21,606
Equity contracts purchased	3,867	1,131
Equity contracts sold	2,154	0
Other contracts purchased	1,224	1,642
Other contracts sold	581	544

### Fair Values of Derivative Instruments

The following table presents our derivative instruments:

(In millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
		June 30, 2023		June 30, 2022
<b>Designated as Hedging Instruments</b>				
Foreign exchange contracts	\$ 34	\$ (67)	\$ 0	\$ (77)
Interest rate contracts	16	0	3	0
<b>Not Designated as Hedging Instruments</b>				
Foreign exchange contracts	249	(332)	333	(362)
Equity contracts	165	(400)	5	(95)
Other contracts	5	(6)	15	(17)
Gross amounts of derivatives	469	(805)	356	(551)
Gross amounts of derivatives offset in the balance sheet	(202)	206	(130)	133
Cash collateral received	0	(125)	0	(75)
Net amounts of derivatives	\$ 267	\$ (724)	\$ 226	\$ (493)
<b>Reported as</b>				
Short-term investments	\$ 6	\$ 0	\$ 8	\$ 0
Other current assets	245	0	218	0
Other long-term assets	16	0	0	0
Other current liabilities	0	(341)	0	(298)
Other long-term liabilities	0	(383)	0	(195)
Total	\$ 267	\$ (724)	\$ 226	\$ (493)

Gross derivative assets and liabilities subject to legally enforceable master netting agreements for which we have elected to offset were \$442 million and \$804 million, respectively, as of June 30, 2023, and \$343 million and \$550 million, respectively, as of June 30, 2022.

The following table presents the fair value of our derivatives instruments on a gross basis:

(In millions)	Level 1	Level 2	Level 3	Total
<b>June 30, 2023</b>				
Derivative assets	\$ 0	\$ 462	\$ 7	\$ 469

Derivative liabilities	0	(805)	0	(805)
June 30, 2022				
Derivative assets	1	349	6	356
Derivative liabilities	0	(551)	0	(551)

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Gains (losses) on derivative instruments recognized in other income (expense), net were as follows:

(In millions)

Year Ended June 30,	2023	2022	2021
<b>Designated as Fair Value Hedging Instruments</b>			
Foreign exchange contracts			
Derivatives	\$ 0	\$ 49	\$ 193
Hedged items	0	(50)	(188)
Excluded from effectiveness assessment	0	4	30
Interest rate contracts			
Derivatives	(65)	(92)	(37)
Hedged items	38	108	53
<b>Designated as Cash Flow Hedging Instruments</b>			
Foreign exchange contracts			
Amount reclassified from accumulated other comprehensive income	61	(79)	17
<b>Not Designated as Hedging Instruments</b>			
Foreign exchange contracts	(73)	383	27
Equity contracts	(420)	13	(6)
Other contracts	(41)	(85)	15

Gains (losses), net of tax, on derivative instruments recognized in our consolidated comprehensive income statements were as follows:

(In millions)

Year Ended June 30,	2023	2022	2021
<b>Designated as Cash Flow Hedging Instruments</b>			
Foreign exchange contracts			
Included in effectiveness assessment	\$ 34	\$ (57)	\$ 34

### NOTE 6 — INVENTORIES

The components of inventories were as follows:

(In millions)

June 30,	2023	2022
Raw materials	\$ 709	\$ 1,144
Work in process	23	82
Finished goods	1,768	2,516
Total	<u>\$ 2,500</u>	<u>\$ 3,742</u>

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The components of property and equipment were as follows:

(In millions)

June 30,	2023	2022
Land	\$ 5,683	\$ 4,734
Buildings and improvements	68,465	55,014
Leasehold improvements	8,537	7,819
Computer equipment and software	74,961	60,631
Furniture and equipment	6,246	5,860
Total, at cost	163,892	134,058
Accumulated depreciation	(68,251)	(59,660)
Total, net	\$ 95,641	\$ 74,398

During fiscal years 2023, 2022, and 2021, depreciation expense was \$11.0 billion, \$12.6 billion, and \$9.3 billion, respectively. Depreciation expense declined in fiscal year 2023 due to the change in estimated useful lives of our server and network equipment.

As of June 30, 2023, we have committed \$13.5 billion for the construction of new buildings, building improvements, and leasehold improvements, primarily related to datacenters.

NOTE 8 — BUSINESS COMBINATIONS**Nuance Communications, Inc.**

On March 4, 2022, we completed our acquisition of Nuance Communications, Inc. (“Nuance”) for a total purchase price of \$18.8 billion, consisting primarily of cash. Nuance is a cloud and artificial intelligence (“AI”) software provider with healthcare and enterprise AI experience, and the acquisition will build on our industry-specific cloud offerings. The financial results of Nuance have been included in our consolidated financial statements since the date of the acquisition. Nuance is reported as part of our Intelligent Cloud segment.

The allocation of the purchase price to goodwill was completed as of December 31, 2022. The major classes of assets and liabilities to which we have allocated the purchase price were as follows:

(In millions)

Goodwill <sup>(a)</sup>	\$ 16,326
Intangible assets	4,365
Other assets	42
Other liabilities <sup>(b)</sup>	(1,972)
Total	\$ 18,761

(a) Goodwill was assigned to our Intelligent Cloud segment and was primarily attributed to increased synergies that are expected to be achieved from the integration of Nuance. None of the goodwill is expected to be deductible for income tax purposes.

(b) Includes \$986 million of convertible senior notes issued by Nuance in 2015 and 2017, substantially all of which have been redeemed.

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

(In millions, except average life)	Amount	Weighted Average Life
Customer-related	\$ 2,610	9 years
Technology-based	1,540	5 years
Marketing-related	215	4 years
Total	<u>\$ 4,365</u>	7 years



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### ZeniMax Media Inc.

On March 9, 2021, we completed our acquisition of ZeniMax Media Inc. ("ZeniMax"), the parent company of Bethesda Softworks LLC ("Bethesda"), for a total purchase price of \$8.1 billion, consisting primarily of cash. The purchase price included \$766 million of cash and cash equivalents acquired. Bethesda is one of the largest, privately held game developers and publishers in the world, and brings a broad portfolio of games, technology, and talent to Xbox. The financial results of ZeniMax have been included in our consolidated financial statements since the date of the acquisition. ZeniMax is reported as part of our More Personal Computing segment.

The allocation of the purchase price to goodwill was completed as of December 31, 2021. The major classes of assets and liabilities to which we have allocated the purchase price were as follows:

(In millions)

Cash and cash equivalents	\$ 766
Goodwill	5,510
Intangible assets	1,968
Other assets	121
Other liabilities	(244)
<b>Total</b>	<b>\$ 8,121</b>

Goodwill was assigned to our More Personal Computing segment. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of ZeniMax. None of the goodwill is expected to be deductible for income tax purposes.

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

(In millions, except average life)	Amount	Weighted Average Life
Technology-based	\$ 1,341	4 years
Marketing-related	627	11 years
<b>Total</b>	<b>\$ 1,968</b>	<b>6 years</b>

### Activision Blizzard, Inc.

On January 18, 2022, we entered into a definitive agreement to acquire Activision Blizzard, Inc. ("Activision Blizzard") for \$95.00 per share in an all-cash transaction valued at \$68.7 billion, inclusive of Activision Blizzard's net cash. Activision Blizzard is a leader in game development and an interactive entertainment content publisher. The acquisition will accelerate the growth in our gaming business across mobile, PC, console, and cloud gaming. The acquisition has been approved by Activision Blizzard's shareholders. We continue to work toward closing the transaction subject to obtaining required regulatory approvals and satisfaction of other customary closing conditions. Microsoft and Activision Blizzard have jointly agreed to extend the merger agreement through October 18, 2023 to allow for additional time to resolve remaining regulatory concerns.

### NOTE 9 — GOODWILL

Changes in the carrying amount of goodwill were as follows:

(In millions)	June 30, 2021	Acquisitions	Other	June 30, 2022	Acquisitions	Other	June 30, 2023
Productivity and Business Processes	\$ 24,317	\$ 599	\$ (105)	\$ 24,811	\$ 11	\$ (47)	\$ 24,775
Intelligent Cloud	13,256	16,879	47	30,182	223	64	30,469
More Personal Computing	12,138	648	(255)	12,531	0	111	12,642
<b>Total</b>	<b>\$ 49,711</b>	<b>\$ 18,126</b>	<b>\$ (313)</b>	<b>\$ 67,524</b>	<b>\$ 234</b>	<b>\$ 128</b>	<b>\$ 67,886</b>