Microsoft Reports Record Revenue of $20.9 Billion in Second Quarter

*Strong business demand and holiday sales drive record revenue and EPS.*

**REDMOND, Wash. — Jan. 19, 2012 —** Microsoft Corp. today announced quarterly revenue of $20.89 billion for the quarter ended Dec. 31, 2011, a 5% increase from the prior year period. Operating income, net income, and diluted earnings per share for the quarter were $7.99 billion, $6.62 billion, and $0.78 per share, compared with $8.17 billion, $6.63 billion and $0.77 per share, respectively, in the prior year period. Prior year results include recognition of $224 million of deferred revenue related to the Office 2010 technology guarantee program.

“We delivered solid financial results, even as we prepare for a launch year that will accelerate many of our key products and services,” said Steve Ballmer, chief executive officer at Microsoft. “Coming out of the Consumer Electronics Show, we’re seeing very positive reviews for our new phones and PCs, and a strong response to our new Metro style design that will unify consumer experiences across our phones, PCs, tablets, and television in 2012.”

The Microsoft Business Division reported $6.28 billion in second quarter revenue, a 3% increase from the prior year period, and a 7% increase excluding the prior year recognition of deferred revenue for the Office 2010 technology guarantee program. Nearly 200 million licenses of Office 2010 have been sold in the 18 months since launch. Revenue from Exchange and SharePoint grew by 10% or more over the prior year period, and revenue from Lync and Dynamics CRM grew by more than 30%.

The Server & Tools business posted $4.77 billion in second quarter revenue, an 11% increase from the prior year period, reflecting double-digit revenue growth in Windows Server and SQL Server premium editions and more than 20% growth in System Center revenue.

“We saw strong demand for our business products and services, despite the soft PC market and continuing economic uncertainty in key parts of the world,” said Peter Klein, chief financial officer at Microsoft. “We delivered record earnings per share by continuing to manage our costs while investing for future growth.”

The Windows and Windows Live Division posted revenue of $4.74 billion, a 6% decline from the prior period. Microsoft has sold over 525 million Windows 7 licenses since launch.

The Online Services Division reported revenue of $784 million, a 10% increase from the prior year period. Bing organic US market share grew to 15.1% while Bing-powered US market share, including Yahoo! properties, was approximately 27%.

The Entertainment & Devices Division posted revenue of $4.24 billion, an increase of 15% from the prior period. The Xbox 360 installed base now totals approximately 66 million consoles and 18 million Kinect sensors. Xbox LIVE now has 40 million members worldwide, an increase of 33% from the prior year period.

“In addition to the continued strength of our commercial business, this holiday season was the strongest in Microsoft history, thanks to good sales execution and compelling products like Xbox 360 and Kinect,” said Kevin Turner, chief operating officer at Microsoft. “We are seeing a lot of excitement for new devices, from Windows 7 Ultrabooks to new Windows Phones, as well as growing anticipation for Windows 8.”

**Business Outlook**

Microsoft is revising operating expense guidance downward to $28.5 billion to $28.9 billion for the full year ending June 30, 2012.

**Webcast Details**

Peter Klein, chief financial officer, Frank Brod, chief accounting officer, and Bill Koefoed, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. PST (5:30 p.m. EST) today to discuss details of the company’s performance for the quarter and certain forward-looking information. The session may be accessed at <http://www.microsoft.com/investor>. The webcast will be available for replay through the close of business on Jan. 19, 2013.

**About Microsoft**

Founded in 1975, Microsoft (Nasdaq “MSFT”) is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.

**Forward-Looking Statements**

Statements in this release that are “forward-looking statements” are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

* execution and competitive risks in transitioning to cloud-based computing;
* challenges to Microsoft’s business model;
* intense competition in all of Microsoft’s markets;
* Microsoft’s continued ability to protect its intellectual property rights;
* claims that Microsoft has infringed the intellectual property rights of others;
* the possibility of unauthorized disclosure of significant portions of Microsoft’s source code;
* actual or perceived security vulnerabilities in Microsoft products that could reduce revenue or lead to liability;
* improper disclosure of personal data that could result in liability and harm to Microsoft’s reputation;
* outages and disruptions of services provided to customers directly or through third parties if Microsoft fails to maintain an adequate operations infrastructure;
* government litigation and regulation affecting how Microsoft designs and markets its products;
* Microsoft’s ability to attract and retain talented employees;
* delays in product development and related product release schedules;
* significant business investments that may not gain customer acceptance and produce offsetting increases in revenue;
* unfavorable changes in general economic conditions, disruption of our partner networks or sales channels, or the availability of credit that affect demand for Microsoft’s products and services or the value of our investment portfolio;
* adverse results in legal disputes;
* unanticipated tax liabilities;
* quality or supply problems in Microsoft’s consumer hardware or other vertically integrated hardware and software products;
* impairment of goodwill or amortizable intangible assets causing a charge to earnings;
* exposure to increased economic and regulatory uncertainties from operating a global business;
* geopolitical conditions, natural disaster, cyberattack or other catastrophic events disrupting Microsoft’s business; and
* acquisitions, joint ventures and strategic alliances that adversely affect the business.

For further information regarding risks and uncertainties associated with Microsoft’s business, please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” sections of Microsoft’s SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft’s Investor Relations department at (800) 285-7772 or at Microsoft’s Investor Relations website at <http://www.microsoft.com/investor>/.

All information in this release is as of January 19, 2012. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company’s expectations.

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*Note to editors:* For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at <http://www.microsoft.com/news>/. Web links, telephone numbers and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today’s 2:30 p.m. PST conference call with investors and analysts, is available at <http://www.microsoft.com/investor/>.

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| INCOME STATEMENTS |
| (In millions, except per share amounts) (Unaudited) |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2011** |  | **2010** |  | **2011** |  | **2010** |
| Revenue |  **$ 20,885**  |  |  $19,953  |  |  **$ 38,257**  |  |  $36,148  |
| Operating expenses: |  |  |  |  |  |  |  |
|  Cost of revenue |  **5,638**  |  |  4,833  |  |  **9,415**  |  |  7,972  |
|  Research and development |  **2,371**  |  |  2,185  |  |  **4,700**  |  |  4,381  |
|  Sales and marketing |  **3,762**  |  |  3,825  |  |  **6,662**  |  |  6,631  |
|  General and administrative |  **1,120**  |  |  945  |  |  **2,283**  |  |  1,883  |
|  Total operating expenses |  **12,891**  |  |  11,788  |  |  **23,060**  |  |  20,867  |
| Operating income |  **7,994**  |  |  8,165  |  |  **15,197**  |  |  15,281  |
| Other income |  **245**  |  |  332  |  |  **348**  |  |  446  |
| Income before income taxes |  **8,239**  |  |  8,497  |  |  **15,545**  |  |  15,727  |
| Provision for income taxes |  **1,615**  |  |  1,863  |  |  **3,183**  |  |  3,683  |
| Net income |  **$ 6,624**  |  |  $ 6,634  |  |  **$ 12,362**  |  |  $12,044  |
|  |  |  |  |  |  |  |  |
| Earnings per share: |  |  |  |  |  |  |  |
|  Basic |  **$ 0.79**  |  |  $ 0.78  |  |  **$ 1.47**  |  |  $ 1.41  |
|  Diluted |  **$ 0.78**  |  |  $ 0.77  |  |  **$ 1.46**  |  |  $ 1.39  |
| Weighted average shares outstanding: |  |  |  |  |  |  |  |
|  Basic |  **8,402**  |  |  8,497  |  |  **8,397**  |  |  8,555  |
|  Diluted |  **8,465**  |  |  8,570  |  |  **8,489**  |  |  8,646  |
| Cash dividends declared per common share |  **$ 0.20**  |  |  $ 0.16  |   |  **$ 0.40**  |  |  $ 0.32  |

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| **MICROSOFT CORPORATION** |  |  |  |
| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **December 31,2011** |  | **June 30,2011(1)** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 10,610**  |  |  $ 9,610  |
|  Short-term investments (including securities loaned  of **$831** and $1,181) |  **41,126**  |  |  43,162  |
|  Total cash, cash equivalents, and short-term  investments |  **51,736**  |  |  52,772  |
|  Accounts receivable, net of allowance for doubtful  accounts of **$321** and $333 |  **13,643**  |  |  14,987  |
|  Inventories |  **1,351**  |  |  1,372  |
|  Deferred income taxes |  **2,169**  |  |  2,467  |
|  Other |  **3,614**  |  |  3,320  |
|  Total current assets |  **72,513**  |  |  74,918  |
| Property and equipment, net of accumulated depreciation  of **$10,546** and $9,829 |  **8,010**  |  |  8,162  |
| Equity and other investments |  **7,550**  |  |  10,865  |
| Goodwill |  **19,670**  |  |  12,581  |
| Intangible assets, net |  **2,581**  |  |  744  |
| Other long-term assets |  **1,919**  |  |  1,434  |
|  Total assets |  **$ 112,243**  |  |  $ 108,704  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 3,884**  |  |  $ 4,197  |
|  Accrued compensation |  **2,677**  |  |  3,575  |
|  Income taxes |  **921**  |  |  580  |
|  Short-term unearned revenue |  **13,985**  |  |  15,722  |
|  Securities lending payable |  **849**  |  |  1,208  |
|  Other |  **3,057**  |  |  3,492  |
|  Total current liabilities |  **25,373**  |  |  28,774  |
| Long-term debt |  **11,932**  |  |  11,921  |
| Long-term unearned revenue |  **1,349**  |  |  1,398  |
| Deferred income taxes |  **1,082**  |  |  1,456  |
| Other long-term liabilities |  **8,386**  |  |  8,072  |
|  Total liabilities |  **48,122**  |  |  51,621  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **8,382** and 8,376 |  **63,902**  |  |  63,415  |
|  Retained earnings (deficit), including accumulated other  comprehensive income of **$826** and $1,863 |  **219**  |  |  (6,332) |
|  Total stockholders' equity |  **64,121**  |  |  57,083  |
|  Total liabilities and stockholders' equity |  **$ 112,243**  |  |  $ 108,704  |
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| (1) Derived from audited financial statements. |  |  |  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
| CASH FLOW STATEMENTS |
| (In millions) (Unaudited) |
|  |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2011** |  | **2010** |  | **2011** |  | **2010** |
| **Operations** |  |  |  |  |  |  |  |
| Net income |  **$ 6,624**  |  |  $ 6,634  |  |  **$ 12,362**  |  |  $12,044  |
| Adjustments to reconcile net income  to net cash from operations: |  |  |  |  |  |  |  |
|  Depreciation, amortization, and  other |  **678**  |  |  663  |  |  **1,404**  |  |  1,357  |
|  Stock-based compensation  expense |  **575**  |  |  553  |  |  **1,133**  |  |  1,081  |
|  Net recognized gains on  investments and derivatives |  **(112)** |  |  (226) |  |  **(142)** |  |  (255) |
|  Excess tax benefits from  stock-based compensation |  **(4)** |  |  (4) |  |  **(74)** |  |  (9) |
|  Deferred income taxes |  **14**  |  |  (117) |  |  **416**  |  |  (265) |
|  Deferral of unearned revenue |  **7,544**  |  |  6,834  |  |  **13,683**  |  |  12,715  |
|  Recognition of unearned revenue |  **(8,057)** |  |  (7,301) |  |  **(15,710)** |  |  (14,163) |
|  Changes in operating assets and  liabilities: |  |  |  |  |  |  |  |
|  Accounts receivable |  **(3,652)** |  |  (3,270) |  |  **1,081**  |  |  404  |
|  Inventories |  **891**  |  |  380  |  |  **(29)** |  |  (88) |
|  Other current assets |  **605**  |  |  (77) |  |  **865**  |  |  131  |
|  Other long-term assets |  **30**  |  |  118  |  |  **(45)** |  |  180  |
|  Accounts payable |  **176**  |  |  216  |  |  **(266)** |  |  (184) |
|  Other current liabilities |  **394**  |  |  (500) |  |  **(599)** |  |  (1,411) |
|  Other long-term liabilities |  **156**  |  |  283  |  |  **276**  |  |  843  |
|  Net cash from operations |  **5,862**  |  |  4,186  |  |  **14,355**  |  |  12,380  |
| **Financing** |  |  |  |  |  |  |  |
| Short-term debt repayments,  maturities of 90 days or less, net |  **0**  |  |  (1,000) |  |  **0**  |  |  (186) |
| Proceeds from issuance of debt,  maturities longer than 90 days |  **0**  |  |  0  |  |  **0**  |  |  4,721  |
| Repayments of debt, maturities  longer than 90 days |  **0**  |  |  0  |  |  **0**  |  |  (814) |
| Common stock issued |  **208**  |  |  660  |  |  **544**  |  |  837  |
| Common stock repurchased  |  **(1,042)** |  |  (5,052) |  |  **(2,976)** |  |  (9,451) |
| Common stock cash dividends paid |  **(1,683)** |  |  (1,363) |  |  **(3,024)** |  |  (2,481) |
| Excess tax benefits from  stock-based compensation |  **4**  |  |  4  |  |  **74**  |  |  9  |
| Other |  **0**  |  |  0  |  |  **0**  |  |  (25) |
|  Net cash used in financing |  **(2,513)** |  |  (6,751) |  |  **(5,382)** |  |  (7,390) |
| **Investing** |  |  |  |  |  |  |  |
| Additions to property and equipment |  **(498)** |  |  (491) |  |  **(934)** |  |  (1,055) |
| Acquisition of companies, net of cash acquired, and purchases of  intangible and other assets |  **(8,627)** |  |  (69) |  |  **(9,502)** |  |  (69) |
| Purchases of investments |  **(10,047)** |  |  (5,896) |  |  **(21,346)** |  |  (13,313) |
| Maturities of investments |  **6,061**  |  |  1,836  |  |  **8,886**  |  |  2,706  |
| Sales of investments |  **7,835**  |  |  2,603  |  |  **15,371**  |  |  4,030  |
| Securities lending payable |  **(292)** |  |  447  |  |  **(358)** |  |  1,174  |
|  Net cash used in investing |  **(5,568)** |  |  (1,570) |  |  **(7,883)** |  |  (6,527) |
| Effect of exchange rates on cash  and cash equivalents |  **(52)** |  |  (3) |  |  **(90)** |  |  55  |
| Net change in cash and cash  equivalents |  **(2,271)** |  |  (4,138) |  |  **1,000**  |  |  (1,482) |
| Cash and cash equivalents,  beginning of period |  **12,881**  |  |  8,161  |  |  **9,610**  |  |  5,505  |
| Cash and cash equivalents, end of  period |  **$ 10,610**  |  |  $ 4,023  |  |  **$ 10,610**  |  |  $ 4,023  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| SEGMENT REVENUE AND OPERATING INCOME (LOSS) |
| (In millions) (Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2011** |  | **2010** |  | **2011** |  | **2010** |
| **Revenue** |  |  |  |  |  |  |  |
| Windows & Windows Live Division |  **$ 4,736**  |  |  $ 5,056  |  |  **$ 9,604**  |  |  $ 9,843  |
| Server and Tools |  **4,772**  |  |  4,288  |  |  **9,022**  |  |  8,149  |
| Online Services Division |  **784**  |  |  713  |  |  **1,425**  |  |  1,260  |
| Microsoft Business Division |  **6,279**  |  |  6,110  |  |  **11,886**  |  |  11,312  |
| Entertainment and Devices Division |  **4,237**  |  |  3,698  |  |  **6,198**  |  |  5,493  |
| Unallocated and other |  **77**  |  |  88  |  |  **122**  |  |  91  |
|  Consolidated |  **$ 20,885**  |  |  $19,953  |  |  **$ 38,257**  |  |  $36,148  |
|  |  |  |  |  |  |  |  |
| **Operating income (loss)** |  |  |  |  |  |  |  |
| Windows & Windows Live Division |  **$ 2,850**  |  |  $ 3,214  |  |  **$ 6,101**  |  |  $ 6,502  |
| Server and Tools |  **1,996**  |  |  1,711  |  |  **3,593**  |  |  3,248  |
| Online Services Division |  **(458)** |  |  (559) |  |  **(971)** |  |  (1,132) |
| Microsoft Business Division |  **4,152**  |  |  4,087  |  |  **7,839**  |  |  7,570  |
| Entertainment and Devices Division |  **528**  |  |  666  |  |  **877**  |  |  1,050  |
| Corporate-level activity |  **(1,074)** |  |  (954) |  |  **(2,242)** |  |  (1,957) |
|  Consolidated |  **$ 7,994**  |  |  $ 8,165  |  |  **$ 15,197**  |  |  $15,281  |