

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 8-K**

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**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of report (Date of earliest event reported) July 19, 2016**

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**Microsoft Corporation**  
(Exact Name of Registrant as Specified in Its Charter)

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**Washington**  
(State or Other Jurisdiction  
of Incorporation)

**0-14278**  
(Commission  
File Number)

**91-1144442**  
(IRS Employer  
Identification No.)

**One Microsoft Way, Redmond, Washington**  
(Address of Principal Executive Offices)

**98052-6399**  
(Zip Code)

**(425) 882-8080**  
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition**

On July 19, 2016, Microsoft Corporation issued a press release announcing its financial results for the fiscal quarter and year ended June 30, 2016. A copy of the press release is furnished as Exhibit 99.1 to this report.

In accordance with General Instruction B.2 of Form 8-K, the information in this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Item 9.01. Financial Statements and Exhibits**

(d) Exhibits:

99.1 Press release, dated July 19, 2016, issued by Microsoft Corporation

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MICROSOFT CORPORATION  
(Registrant)

Date: July 19, 2016

\_\_\_\_\_  
/s/ FRANK H. BROD

Frank H. Brod  
Corporate Vice President, Finance and Administration;  
Chief Accounting Officer

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## INDEX TO EXHIBITS

**Exhibit  
No.**

**Description**

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99.1 Press release dated July 19, 2016

## Microsoft Cloud Strength Highlights Fourth Quarter Results

Commercial cloud annualized revenue run rate exceeds \$12.1 billion

**REDMOND, Wash. — July 19, 2016** — Microsoft Corp. today announced the following results for the quarter ended June 30, 2016:

- Revenue was \$20.6 billion GAAP, and \$22.6 billion non-GAAP
- Operating income was \$3.1 billion GAAP, and \$6.2 billion non-GAAP
- Net income was \$3.1 billion GAAP, and \$5.5 billion non-GAAP
- Diluted earnings per share was \$0.39 GAAP, and \$0.69 non-GAAP

“This past year was pivotal in both our own transformation and in partnering with our customers who are navigating their own digital transformations,” said Satya Nadella, chief executive officer at Microsoft. “The Microsoft Cloud is seeing significant customer momentum and we’re well positioned to reach new opportunities in the year ahead.”

The following table reconciles our financial results reported in accordance with generally accepted accounting principles (“GAAP”) to non-GAAP financial results. Microsoft has provided this non-GAAP financial information to aid investors in better understanding the company's performance. Additional information regarding non-GAAP definitions is provided below. All growth comparisons relate to the corresponding period in the last fiscal year.

|   | Three Months Ended June 30, |                               |                      |   |
|---|-----------------------------|-------------------------------|----------------------|---|
| (\$ in millions, except per share amounts)          | Revenue                     | Operating<br>Income<br>(Loss) | Net Income<br>(Loss) | Diluted Earnings<br>(Loss)<br>per Share |
| <b>2015 As Reported (GAAP)</b>                      | \$22,180                    | \$(2,053)                     | \$(3,195)            | \$(0.40)                                |
| Impairment, Integration, and Restructuring Expenses | -                           | 8,438                         | 8,262                | 1.02                                    |
| <b>2015 As Adjusted (non-GAAP)</b>                  | \$22,180                    | \$6,385                       | \$5,067              | \$0.62                                  |
| <b>2016 As Reported (GAAP)</b>                      | \$20,614                    | \$3,080                       | \$3,122              | \$0.39                                  |
| Net Impact from Windows 10 Revenue Deferrals        | 2,028                       | 2,028                         | 1,467                | 0.19                                    |
| Impairment, Integration, and Restructuring Expenses | -                           | 1,110                         | 895                  | 0.11                                    |
| <b>2016 As Adjusted (non-GAAP)</b>                  | \$22,642                    | \$6,218                       | \$5,484              | \$0.69                                  |
| Percentage Change Y/Y (GAAP)                        | (7)%                        | *                             | *                    | *                                       |
| Percentage Change Y/Y (non-GAAP)                    | 2%                          | (3)%                          | 8%                   | 11%                                     |
| Percentage Change Y/Y (non-GAAP) Constant Currency  | 5%                          | 6%                            | 23%                  | 27%                                     |

\* Not meaningful

During the quarter, Microsoft returned \$6.4 billion to shareholders in the form of share repurchases and dividends.

The current quarter effective tax rate reflected a favorable mix of our income between the U.S. and foreign countries, as well as benefits associated with distributions from foreign affiliates. As such, the GAAP and non-GAAP tax rates were 7% and 15%, respectively.

“This fiscal year we invested in innovation and expanded our market presence in key product areas and geographies,” said Amy Hood, executive vice president and chief financial officer at Microsoft. “I am pleased with the execution from our sales teams and partners this quarter who delivered a strong finish to the fiscal year.”

Revenue in Productivity and Business Processes grew 5% (up 8% in constant currency) to \$7.0 billion, with the following business highlights:

- Office commercial products and cloud services revenue grew 5% (up 9% in constant currency) driven by Office 365 commercial revenue growth of 54% (up 59% in constant currency)
- Office consumer products and cloud services revenue grew 19% (up 18% in constant currency) with Office 365 consumer subscribers increasing to 23.1 million
- Dynamics products and cloud services revenue grew 6% (up 7% in constant currency) with Dynamics CRM Online paid seats growing more than 2.5x year-over-year

Revenue in Intelligent Cloud grew 7% (up 10% in constant currency) to \$6.7 billion, with the following business highlights:

- Server products and cloud services revenue increased 5% (up 8% in constant currency) driven by double-digit annuity revenue growth
- Azure revenue grew 102% (up 108% in constant currency) with Azure compute usage more than doubling year-over-year
- Enterprise Mobility customers nearly doubled year-over-year to over 33,000, and the installed base grew nearly 2.5x year-over-year

Revenue in More Personal Computing declined 4% (down 2% in constant currency) to \$8.9 billion, with the following business highlights:

- Windows OEM non-Pro revenue grew 27% (up 27% in constant currency), outpacing the consumer PC market, and Windows OEM Pro revenue grew 2% (up 2% in constant currency)
- Surface revenue increased 9% (up 9% in constant currency) driven by Surface Pro 4 and Surface Book
- Phone revenue declined 71% (down 70% in constant currency)
- Xbox Live monthly active users grew 33% year-over-year to 49 million
- Search advertising revenue excluding traffic acquisition costs grew 16% (up 17% in constant currency) with continued benefit from Windows 10 usage

### **Fiscal Year 2016 Results**

Microsoft Corp. today announced the following results for the fiscal year ended June 30, 2016:

- Revenue was \$85.3 billion GAAP, and \$92.0 billion non-GAAP
- Operating income was \$20.2 billion GAAP, and \$27.9 billion non-GAAP
- Net income was \$16.8 billion GAAP, and \$22.3 billion non-GAAP
- Diluted earnings per share was \$2.10 GAAP, and \$2.79 non-GAAP

The following table reconciles our financial results reported in accordance with GAAP to non-GAAP financial results. Microsoft has provided this non-GAAP financial information to aid investors in better understanding the company's performance. The items included in our non-GAAP presentation have changed this quarter to reflect the recent Securities and Exchange Commission ("SEC") Compliance & Disclosure Interpretations ("C&DIs"). Additional information regarding non-GAAP definitions is provided below. All growth comparisons relate to the corresponding period in the last fiscal year.

| (\$ in millions, except per share amounts)          | Revenue         | Operating Income | Net Income      | Diluted Earnings per Share |
|---|-----------------|------------------|-----------------|----------------------------|
| <b>2015 As Reported (GAAP)</b>                      | <b>\$93,580</b> | <b>\$18,161</b>  | <b>\$12,193</b> | <b>\$1.48</b>              |
| Impairment, Integration, and Restructuring Expenses | -               | 10,011           | 9,494           | \$1.15                     |
| <b>2015 As Adjusted (non-GAAP)</b>                  | <b>\$93,580</b> | <b>\$28,172</b>  | <b>\$21,687</b> | <b>\$2.63</b>              |
| <b>2016 As Reported (GAAP)</b>                      | <b>\$85,320</b> | <b>\$20,182</b>  | <b>\$16,798</b> | <b>\$2.10</b>              |
| Net Impact from Windows 10 Revenue Deferrals        | 6,643           | 6,643            | 4,635           | 0.58                       |
| Impairment, Integration, and Restructuring Expenses | -               | 1,110            | 895             | 0.11                       |
| <b>2016 As Adjusted (non-GAAP)</b>                  | <b>\$91,963</b> | <b>\$27,935</b>  | <b>\$22,328</b> | <b>\$2.79</b>              |
| Percentage Change Y/Y (GAAP)                        | (9)%            | 11%              | 38%             | 42%                        |
| Percentage Change Y/Y (non-GAAP)                    | (2)%            | (1)%             | 3%              | 6%                         |

The current year GAAP and non-GAAP effective tax rates were 15% and 19%, respectively.

## Business Outlook

Microsoft will provide forward-looking guidance in connection with this quarterly earnings announcement on its earnings conference call and webcast.

## Webcast Details

Satya Nadella, chief executive officer, Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, John Seethoff, deputy general counsel and corporate secretary, and Chris Suh, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. Pacific time (5:30 p.m. Eastern time) 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/en-us/investor>. The webcast will be available for replay through the close of business on July 19, 2017.

## "As Adjusted" Financial Results and non-GAAP Measures

During fiscal year 2016, GAAP revenue, operating income, net income, and diluted earnings per share include the net impact from Windows 10 revenue deferrals. During fiscal year 2016 and fiscal year 2015, GAAP operating income, net income, and diluted earnings per share include impairment, integration, and restructuring expenses. These items are defined below. In addition to these financial results reported in accordance with GAAP, Microsoft has provided certain non-GAAP financial information to aid investors in better understanding the company's performance. Presenting these non-GAAP measures gives additional insight into operational performance and helps clarify trends affecting the company's business. For comparability of reporting, management considers this information in conjunction with GAAP amounts in evaluating business performance. With respect to our non-GAAP measures related to Windows 10 revenue we believe these measures bridge investor information and minimize potential confusion during the brief period between the time Windows 10 revenue recognition moved from upfront to ratable, and the adoption of the new revenue standard, when Windows 10 will again be recognized predominantly upfront. The net change in Windows 10 revenue from period to period is indicative of the net change in revenue we expect from adoption of the new revenue standard. These non-GAAP financial measures should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

## Non-GAAP Definitions

*Net Impact from Windows 10 Revenue Deferrals.* Microsoft recorded net revenue deferrals of \$2.0 billion during the three months ended June 30, 2016 and net revenue deferrals of \$6.6 billion during the twelve months ended June 30, 2016, related to Windows 10.

With the launch of Windows 10 in July 2015, Windows 10 customers receive future versions and updates at no additional charge. Under current revenue recognition accounting guidance, when standalone software is sold with future upgrade rights, revenue must be deferred over the life of the computing device on which it is installed. This is different from prior versions of Windows, which were sold without upgrade rights, where all revenue from original equipment manufacturer (“OEM”) customers was recognized at the time of billing, i.e., upfront.

When Microsoft adopts the new revenue standard, predominately all Windows OEM revenue will be recognized at the time of billing, which is similar to the revenue recognition for prior versions of Windows. Additional information regarding the new revenue standard is provided below. Microsoft reflects the recognition of Windows 10 revenue at the time of billing in “As Adjusted (non-GAAP)” revenue to provide comparability during the short period of time where Windows 10 will be recognized over the estimated life of a device, i.e., ratable, rather than at the time of billing.

*Impairment, Integration and Restructuring Expenses.* During the fourth quarter of fiscal year 2016, restructuring and related impairment expenses were \$1.1 billion. Microsoft recorded \$630 million of asset impairment charges which reflected the performance of our phone business, and \$480 million of restructuring charges primarily related to our previously announced phone business restructuring plans.

During the fourth quarter of fiscal year 2015, impairment, integration, and restructuring expenses were \$8.4 billion. Microsoft recorded \$7.5 billion of goodwill and asset impairment charges related to our phone business, and \$940 million of integration and restructuring expenses primarily related to our phone business restructuring plans.

For fiscal year 2015, impairment, integration, and restructuring expenses were \$10.0 billion. Microsoft recorded \$7.5 billion of goodwill and asset impairment charges related to the phone business, and \$2.5 billion of integration and restructuring expenses primarily related to our phone business restructuring plans.

### **New Revenue Standard**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard related to revenue recognition. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). We currently anticipate adopting the standard using the full retrospective method to restate each prior reporting period presented.

The new standard will be effective for us beginning July 1, 2018, and adoption as of the original effective date of July 1, 2017 is permitted. We currently anticipate early adoption of the new standard effective July 1, 2017. Our ability to early adopt using the full retrospective method is dependent on system readiness, including software procured from third-party providers, and the completion of our analysis of information necessary to restate prior period financial statements.

We anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting for software license revenue. We expect revenue related to hardware, cloud offerings, and professional services to remain substantially unchanged. Specifically, under the new standard we expect to recognize Windows 10 revenue predominantly upfront rather than ratably over the life of the related device. We also expect to recognize license revenue upfront rather than over the

subscription period from certain multi-year commercial software subscriptions that include both software licenses and software assurance. Due to the complexity of certain of our commercial license subscription contracts, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms, and may vary in some instances from upfront recognition.

We currently believe the net change in Windows 10 revenue from period to period is indicative of the net change in revenue we expect from the adoption of the new standard.

### Constant Currency

Microsoft presents constant currency information to provide a non-GAAP framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period non-GAAP results for entities reporting in currencies other than United States dollars are converted into United States dollars using the average exchange rates from the comparative period rather than the actual exchange rates in effect during the respective periods. The non-GAAP financial measures presented below should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

### Financial Performance Constant Currency Reconciliation

|  | Three Months Ended June 30, |                         |                   |                                   |
|--|-----------------------------|-------------------------|-------------------|-----------------------------------|
| (\$ in millions, except per share amounts)         | Revenue                     | Operating Income (Loss) | Net Income (Loss) | Diluted Earnings (Loss) per Share |
| <b>2015 As Reported (GAAP)</b>                     | \$22,180                    | \$(2,053)               | \$(3,195)         | \$(0.40)                          |
| <b>2015 As Adjusted (non-GAAP)</b>                 | \$22,180                    | \$6,385                 | \$5,067           | \$0.62                            |
| <b>2016 As Reported (GAAP)</b>                     | \$20,614                    | \$3,080                 | \$3,122           | \$0.39                            |
| <b>2016 As Adjusted (non-GAAP)</b>                 | \$22,642                    | \$6,218                 | \$5,484           | \$0.69                            |
| Percentage Change Y/Y (GAAP)                       | (7)%                        | *                       | *                 | *                                 |
| Percentage Change Y/Y (non-GAAP)                   | 2%                          | (3)%                    | 8%                | 11%                               |
| <b>Constant Currency Impact</b>                    | <b>\$(596)</b>              | <b>\$(575)</b>          | <b>\$(764)</b>    | <b>\$(0.10)</b>                   |
| Percentage Change Y/Y (non-GAAP) Constant Currency | 5%                          | 6%                      | 23%               | 27%                               |

\* Not meaningful

### Segment Revenue Constant Currency Reconciliation

|  | Three Months Ended June 30,         |                   |                         |
|--|-------------------------------------|-------------------|-------------------------|
| (\$ in millions)                                   | Productivity and Business Processes | Intelligent Cloud | More Personal Computing |
| <b>2015 As Reported (GAAP)</b>                     | \$6,661                             | \$6,296           | \$9,243                 |
| <b>2016 As Reported (GAAP)</b>                     | \$6,969                             | \$6,711           | \$8,897                 |
| Percentage Change Y/Y (GAAP)                       | 5%                                  | 7%                | (4)%                    |
| <b>Constant Currency Impact</b>                    | <b>\$(249)</b>                      | <b>\$(215)</b>    | <b>\$(133)</b>          |
| Percentage Change Y/Y (non-GAAP) Constant Currency | 8%                                  | 10%               | (2)%                    |

## Selected Product Revenue Constant Currency Reconciliation

Three Months Ended June 30,

|  | Percentage Change<br>Y/Y (GAAP) | Constant Currency<br>Impact | Percentage Change<br>Y/Y (non-GAAP)<br>Constant Currency |
|--|---------------------------------|-----------------------------|--|
| Office commercial products and cloud services          | 5%                              | 4%                          | 9%   |
| Office 365 commercial                                  | 54%                             | 5%                          | 59%  |
| Office consumer products and cloud services            | 19%                             | (1)%                        | 18%  |
| Dynamics products and cloud services                   | 6%                              | 1%                          | 7%   |
| Server products and cloud services                     | 5%                              | 3%                          | 8%   |
| Azure  | 102%                            | 6%                          | 108%   |
| Windows OEM non-Pro                                    | 27%                             | 0%                          | 27%  |
| Windows OEM Pro  | 2%                              | 0%                          | 2%   |
| Surface  | 9%                              | 0%                          | 9%   |
| Phone  | (71)%                           | 1%                          | (70)%  |
| Search advertising excluding traffic acquisition costs | 16%                             | 1%                          | 17%  |

## Reconciliation of GAAP and Non-GAAP Effective Tax Rates

The following table provides a reconciliation of the GAAP and non-GAAP effective tax rates for the current quarter and current year:

|   | Effective Tax Rate             |                                 |
|---|--------------------------------|---------------------------------|
|   | Three Months Ended<br>June 30, | Twelve Months Ended<br>June 30, |
| 2016 As Reported (GAAP)                             | 7%                             | 15%                             |
| Net Impact from Windows 10 Revenue Deferrals        | 5%                             | 4%                              |
| Impairment, Integration, and Restructuring Expenses | 3%                             | 0%                              |
| 2016 As Adjusted (non-GAAP)                         | 15%                            | 19%                             |

## Commercial Cloud Annualized Revenue Run Rate

Commercial cloud annualized revenue run rate is calculated by taking revenue in the final month of the quarter multiplied by twelve for Office 365 commercial, Azure, Dynamics Online, and other cloud properties.

## About Microsoft

Microsoft (Nasdaq "MSFT" @microsoft) is the leading platform and productivity company for the mobile-first, cloud-first world and its mission is to empower every person and every organization on the planet to achieve more.

## 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:

- intense competition in all of Microsoft's markets;
- increasing focus on services presents execution and competitive risks;
- significant investments in new products and services that may not be profitable;
- acquisitions, joint ventures, and strategic alliances may have an adverse effect on our business;
- impairment of goodwill or amortizable intangible assets causing a significant charge to earnings;

- Microsoft's continued ability to protect and earn revenues from 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;
- cyber-attacks and security vulnerabilities in Microsoft products and services that could reduce revenue or lead to liability;
- disclosure of personal data that could cause liability and harm to Microsoft's reputation;
- outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
- government litigation and regulation that may limit how Microsoft designs and markets its products;
- potential liability under trade protection and anti-corruption laws resulting from our international operations;
- laws and regulations relating to the handling of personal data may impede the adoption of our services or result in increased costs, legal claims, or fines against us;
- Microsoft's ability to attract and retain talented employees;
- adverse results in legal disputes;
- unanticipated tax liabilities;
- Microsoft's hardware and software products may experience quality or supply problems;
- exposure to increased economic and operational uncertainties from operating a global business, including the effects of foreign currency exchange;
- catastrophic events or geo-political conditions may disrupt our business; and
- adverse economic or market conditions may harm our business.

For more information about 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/en-us/investor>.

All information in this release is as of July 19, 2016. 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.

**For more information, press only:**

Rapid Response Team, Waggener Edstrom Worldwide, (503) 443-7070, [rrt@waggeneredstrom.com](mailto:rrt@waggeneredstrom.com)

**For more information, financial analysts and investors only:**

Chris Suh, general manager, Investor Relations, (425) 706-4400

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. Pacific time conference call with investors and analysts, is available at <http://www.microsoft.com/en-us/investor>.

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

|  | Three Months Ended |           | Twelve Months Ended |          |
|--|--------------------|-----------|---------------------|----------|
|  | June 30,           |           | June 30,            |          |
|  | 2016               | 2015      | 2016                | 2015     |
| Revenue                                    |                    |           |                     |          |
| Product                                    | <b>\$13,988</b>    | \$17,364  | <b>\$61,502</b>     | \$75,956 |
| Service and other                          | <b>6,626</b>       | 4,816     | <b>23,818</b>       | 17,624   |
| Total revenue                              | <b>20,614</b>      | 22,180    | <b>85,320</b>       | 93,580   |
| Cost of revenue                            |                    |           |                     |          |
| Product                                    | <b>3,776</b>       | 4,450     | <b>17,880</b>       | 21,410   |
| Service and other                          | <b>4,203</b>       | 3,018     | <b>14,900</b>       | 11,628   |
| Total cost of revenue                      | <b>7,979</b>       | 7,468     | <b>32,780</b>       | 33,038   |
| Gross margin                               | <b>12,635</b>      | 14,712    | <b>52,540</b>       | 60,542   |
| Research and development                   | <b>3,146</b>       | 3,094     | <b>11,988</b>       | 12,046   |
| Sales and marketing                        | <b>3,998</b>       | 3,961     | <b>14,697</b>       | 15,713   |
| General and administrative                 | <b>1,301</b>       | 1,272     | <b>4,563</b>        | 4,611    |
| Impairment, integration, and restructuring | <b>1,110</b>       | 8,438     | <b>1,110</b>        | 10,011   |
| Operating income (loss)                    | <b>3,080</b>       | (2,053)   | <b>20,182</b>       | 18,161   |
| Other income (expense), net                | <b>267</b>         | 297       | <b>(431)</b>        | 346      |
| Income (loss) before income taxes          | <b>3,347</b>       | (1,756)   | <b>19,751</b>       | 18,507   |
| Provision for income taxes                 | <b>225</b>         | 1,439     | <b>2,953</b>        | 6,314    |
| Net income (loss)                          | <b>\$3,122</b>     | \$(3,195) | <b>\$16,798</b>     | \$12,193 |
| Earnings (loss) per share:                 |                    |           |                     |          |
| Basic                                      | <b>\$0.40</b>      | \$(0.40)  | <b>\$2.12</b>       | \$1.49   |
| Diluted                                    | <b>\$0.39</b>      | \$(0.40)  | <b>\$2.10</b>       | \$1.48   |
| Weighted average shares outstanding:       |                    |           |                     |          |
| Basic                                      | <b>7,842</b>       | 8,061     | <b>7,925</b>        | 8,177    |
| Diluted                                    | <b>7,929</b>       | 8,061     | <b>8,013</b>        | 8,254    |
| Cash dividends declared per common share   | <b>\$0.36</b>      | \$0.31    | <b>\$1.44</b>       | \$1.24   |

**Note:** Service revenue exceeded 10% of total revenue for the first time in fiscal year 2016. As a result, we have separately disclosed product revenue from service and other revenue in our consolidated income statements.

Product revenue includes sales from operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; video games; hardware such as PCs, tablets, gaming and entertainment consoles, phones and other intelligent devices and related accessories; training and certification of computer system integrators and developers.

Service and other revenue includes sales from cloud-based solutions that provide customers with software, services, platforms, and content such as Office 365, Azure, Dynamics CRM Online, and Xbox Live; solution support; and consulting services. Service and other revenue also includes sales from online advertising.

COMPREHENSIVE INCOME STATEMENTS  
(In millions)(Unaudited)

|   | Three Months Ended    |                  | Twelve Months Ended    |                  |
|---|-----------------------|------------------|------------------------|------------------|
|   | 2016                  | June 30,<br>2015 | 2016                   | June 30,<br>2015 |
| Net income (loss)   | <u>\$3,122</u>        | <u>\$(3,195)</u> | <u>\$16,798</u>        | <u>\$12,193</u>  |
| Other comprehensive income (loss):  |                       |                  |                        |                  |
| Net unrealized gains (losses) on derivatives (net of tax effects of <b>\$(10)</b> , <b>\$(11)</b> , <b>\$(12)</b> , and <b>\$20</b> ) | <b>39</b>             | (408)            | <b>(238)</b>           | 559              |
| Net unrealized losses on investments (net of tax effects of <b>\$(84)</b> , <b>\$(39)</b> , <b>\$(121)</b> , and <b>\$(197)</b> )     | <b>(162)</b>          | (67)             | <b>(228)</b>           | (362)            |
| Translation adjustments and other (net of tax effects of <b>\$(15)</b> , <b>\$(448)</b> , <b>\$(33)</b> , and <b>\$16</b> )           | <b>(180)</b>          | (474)            | <b>(519)</b>           | (1,383)          |
| Other comprehensive loss  | <b>(303)</b>          | (949)            | <b>(985)</b>           | (1,186)          |
| Comprehensive income (loss)   | <u><b>\$2,819</b></u> | <u>\$(4,144)</u> | <u><b>\$15,813</b></u> | <u>\$11,007</u>  |

BALANCE SHEETS  
(In millions)(Unaudited)

|  | June 30,<br>2016 | June 30,<br>2015 |
|--|------------------|------------------|
| <b>Assets</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$6,510          | \$5,595          |
| Short-term investments (including securities loaned of \$204 and \$75)                   | 106,730          | 90,931           |
| Total cash, cash equivalents, and short-term investments                                 | 113,240          | 96,526           |
| Accounts receivable, net of allowance for doubtful accounts of \$426 and \$335           | 18,277           | 17,908           |
| Inventories  | 2,251            | 2,902            |
| Other  | 5,892            | 5,461            |
| Total current assets   | 139,660          | 122,797          |
| Property and equipment, net of accumulated depreciation of \$19,800 and \$17,606         | 18,356           | 14,731           |
| Equity and other investments   | 10,431           | 12,053           |
| Goodwill   | 17,872           | 16,939           |
| Intangible assets, net   | 3,733            | 4,835            |
| Other long-term assets   | 3,642            | 3,117            |
| Total assets   | \$193,694        | \$174,472        |
| <b>Liabilities and stockholders' equity</b>  |                  |                  |
| Current liabilities:   |                  |                  |
| Accounts payable   | \$6,898          | \$6,591          |
| Short-term debt  | 12,904           | 4,985            |
| Current portion of long-term debt  | 0                | 2,499            |
| Accrued compensation   | 5,264            | 5,096            |
| Income taxes   | 580              | 606              |
| Short-term unearned revenue  | 27,468           | 23,223           |
| Securities lending payable   | 294              | 92               |
| Other  | 5,949            | 6,555            |
| Total current liabilities  | 59,357           | 49,647           |
| Long-term debt   | 40,783           | 27,808           |
| Long-term unearned revenue   | 6,441            | 2,095            |
| Deferred income taxes  | 696              | 1,295            |
| Other long-term liabilities  | 14,420           | 13,544           |
| Total liabilities  | 121,697          | 94,389           |
| Commitments and contingencies  |                  |                  |
| Stockholders' equity:  |                  |                  |
| Common stock and paid-in capital - shares authorized 24,000; outstanding 7,808 and 8,027 | 68,178           | 68,465           |
| Retained earnings  | 2,282            | 9,096            |
| Accumulated other comprehensive income   | 1,537            | 2,522            |
| Total stockholders' equity   | 71,997           | 80,083           |
| Total liabilities and stockholders' equity   | \$193,694        | \$174,472        |

CASH FLOWS STATEMENTS  
(In millions)(Unaudited)

|   | Three Months Ended<br>June 30, |                | Twelve Months Ended<br>June 30, |                |
|---|--------------------------------|----------------|---------------------------------|----------------|
|   | 2016                           | 2015           | 2016                            | 2015           |
| <b>Operations</b>   |                                |                |                                 |                |
| Net income (loss)   | \$3,122                        | \$(3,195)      | \$16,798                        | \$12,193       |
| Adjustments to reconcile net income (loss) to net cash from operations:       |                                |                |                                 |                |
| Goodwill and long-lived asset impairment                                      | 630                            | 7,498          | 630                             | 7,498          |
| Depreciation, amortization, and other   | 1,910                          | 1,493          | 6,622                           | 5,957          |
| Stock-based compensation expense  | 664                            | 654            | 2,668                           | 2,574          |
| Net recognized gains on investments and derivatives                           | (439)                          | (264)          | (223)                           | (443)          |
| Deferred income taxes   | (625)                          | (644)          | (448)                           | 224            |
| Deferral of unearned revenue  | 21,006                         | 16,687         | 57,072                          | 45,072         |
| Recognition of unearned revenue   | (13,004)                       | (11,573)       | (48,498)                        | (44,920)       |
| Changes in operating assets and liabilities:                                  |                                |                |                                 |                |
| Accounts receivable   | (6,076)                        | (5,448)        | (530)                           | 1,456          |
| Inventories   | 192                            | (429)          | 600                             | (272)          |
| Other current assets  | 747                            | 612            | (1,167)                         | 62             |
| Other long-term assets  | (99)                           | 5              | (41)                            | 346            |
| Accounts payable  | (17)                           | (142)          | 88                              | (1,054)        |
| Other current liabilities   | 1,033                          | 1,328          | (260)                           | (624)          |
| Other long-term liabilities   | (580)                          | 267            | 14                              | 1,599          |
| Net cash from operations  | <b>8,464</b>                   | <b>6,849</b>   | <b>33,325</b>                   | <b>29,668</b>  |
| <b>Financing</b>  |                                |                |                                 |                |
| Proceeds from issuance of short-term debt, maturities of 90 days or less, net | 6,714                          | 3,259          | 7,195                           | 4,481          |
| Proceeds from issuance of debt  | 610                            | 0              | 13,884                          | 10,680         |
| Repayments of debt  | (25)                           | 0              | (2,796)                         | (1,500)        |
| Common stock issued   | 173                            | 151            | 668                             | 634            |
| Common stock repurchased  | (3,677)                        | (4,279)        | (15,969)                        | (14,443)       |
| Common stock cash dividends paid  | (2,821)                        | (2,496)        | (11,006)                        | (9,882)        |
| Other   | (3)                            | (239)          | (369)                           | 362            |
| Net cash from (used in) financing   | <b>971</b>                     | <b>(3,604)</b> | <b>(8,393)</b>                  | <b>(9,668)</b> |

| <b>Investing</b>   |                 |          |                  |          |
|--|-----------------|----------|------------------|----------|
| Additions to property and equipment  | <b>(2,655)</b>  | (1,781)  | <b>(8,343)</b>   | (5,944)  |
| Acquisition of companies, net of cash acquired, and purchases of intangible and other assets | <b>(63)</b>     | (626)    | <b>(1,393)</b>   | (3,723)  |
| Purchases of investments   | <b>(30,097)</b> | (25,259) | <b>(129,758)</b> | (98,729) |
| Maturities of investments  | <b>5,825</b>    | 5,370    | <b>22,054</b>    | 15,013   |
| Sales of investments   | <b>16,995</b>   | 17,232   | <b>93,287</b>    | 70,848   |
| Securities lending payable   | <b>(78)</b>     | (3)      | <b>203</b>       | (466)    |
| Net cash used in investing   | <b>(10,073)</b> | (5,067)  | <b>(23,950)</b>  | (23,001) |
| Effect of foreign exchange rates on cash and cash equivalents                                | <b>(22)</b>     | 3        | <b>(67)</b>      | (73)     |
| Net change in cash and cash equivalents  | <b>(660)</b>    | (1,819)  | <b>915</b>       | (3,074)  |
| Cash and cash equivalents, beginning of period   | <b>7,170</b>    | 7,414    | <b>5,595</b>     | 8,669    |
| Cash and cash equivalents, end of period   | <b>\$6,510</b>  | \$5,595  | <b>\$6,510</b>   | \$5,595  |

SEGMENT REVENUE AND OPERATING INCOME (LOSS)  
(In millions)(Unaudited)

|                                     | Three Months Ended     |                  | Twelve Months Ended    |                  |
|-------------------------------------|------------------------|------------------|------------------------|------------------|
|                                     | 2016                   | June 30,<br>2015 | 2016                   | June 30,<br>2015 |
| <b>Revenue</b>                      |                        |                  |                        |                  |
| Productivity and Business Processes | <b>\$6,969</b>         | \$6,661          | <b>\$26,487</b>        | \$26,430         |
| Intelligent Cloud                   | <b>6,711</b>           | 6,296            | <b>25,042</b>          | 23,715           |
| More Personal Computing             | <b>8,897</b>           | 9,243            | <b>40,460</b>          | 43,160           |
| Corporate and Other                 | <b>(1,963)</b>         | (20)             | <b>(6,669)</b>         | 275              |
| Total revenue                       | <b><u>\$20,614</u></b> | <u>\$22,180</u>  | <b><u>\$85,320</u></b> | <u>\$93,580</u>  |
| <b>Operating income (loss)</b>      |                        |                  |                        |                  |
| Productivity and Business Processes | <b>\$3,000</b>         | \$3,167          | <b>\$12,461</b>        | \$13,359         |
| Intelligent Cloud                   | <b>2,190</b>           | 2,633            | <b>9,358</b>           | 9,871            |
| More Personal Computing             | <b>964</b>             | 605              | <b>6,142</b>           | 4,667            |
| Corporate and Other                 | <b>(3,074)</b>         | (8,458)          | <b>(7,779)</b>         | (9,736)          |
| Total operating income (loss)       | <b><u>\$3,080</u></b>  | <u>\$(2,053)</u> | <b><u>\$20,182</u></b> | <u>\$18,161</u>  |

## FOURTH QUARTER FINANCIAL HIGHLIGHTS

All growth comparisons relate to the corresponding period in the last fiscal year. Please refer to the reconciliation of our GAAP and non-GAAP financial results in the table provided above for additional information.

**SUMMARY**

Revenue was \$20.6 billion, down 7% year-over-year. The decrease in revenue was primarily driven by the net revenue deferral from Windows 10 of \$2.0 billion. Windows 10 revenue is primarily recognized upfront in the More Personal Computing segment, and the deferral and subsequent recognition of revenue is reflected in Corporate and Other. Revenue included an unfavorable foreign currency impact of approximately \$596 million or 3%. Non-GAAP revenue was \$22.6 billion, up 2% year-over-year, including an adjustment for the net revenue deferral from Windows 10.

Gross margin was \$12.6 billion, down 14% year-over-year. The decrease in gross margin was driven by the net revenue deferral from Windows 10 and an increase in cost of revenue. Cost of revenue was \$8.0 billion, up 7% year-over-year, mainly due to growth in commercial cloud and search advertising, offset in part by lower phone sales, driven by the change in strategy for the phone business. Gross margin included an unfavorable foreign currency impact of approximately \$573 million or 4%.

Operating income was \$3.1 billion, compared to operating loss of \$2.1 billion in the prior year. Current year operating income was negatively impacted by the net revenue deferral from Windows 10 and impairment, integration, and restructuring expenses of \$1.1 billion. Prior year operating loss was negatively impacted by impairment, integration, and restructuring expenses of \$8.4 billion. Non-GAAP operating income was \$6.2 billion, down 3% year-over-year, including adjustments for the net revenue deferral from Windows 10 and impairment, integration, and restructuring expenses.

Diluted earnings per share ("EPS") was \$0.39, compared to \$(0.40) in the prior year. Current year diluted EPS was negatively impacted by the net revenue deferral from Windows 10 and impairment, integration, and restructuring expenses, which resulted in a decrease to diluted EPS of \$0.30. Prior year diluted EPS was negatively impacted by impairment, integration, and restructuring expenses, which resulted in a decrease to diluted EPS of \$1.02. Non-GAAP EPS was \$0.69, and grew 11% year-over-year, including adjustments for the net revenue deferral from Windows 10 and impairment, integration, and restructuring expenses.

**SEGMENT INFORMATION*****Productivity and Business Processes***

Productivity and Business Processes revenue increased \$308 million or 5%, primarily due to higher revenue from Office. Revenue included an unfavorable foreign currency impact of approximately 3%.

- Office Commercial revenue increased \$249 million or 5%, driven by higher revenue from Office 365 commercial, mainly due to growth in subscribers, offset in part by lower volume licensing revenue, reflecting a continued shift to Office 365 commercial. Revenue included an unfavorable foreign currency impact of approximately 4%.
- Office Consumer revenue increased \$124 million or 19%, driven by higher revenue from Office 365 consumer, mainly due to growth in subscribers.
- Dynamics revenue increased 6%, mainly due to higher revenue from Dynamics CRM Online, driven by seat growth.

Productivity and Business Processes operating income decreased \$167 million or 5%, driven by higher operating expenses. Operating expenses increased \$155 million or 6%, mainly due to higher sales and marketing expenses, driven by increased investments in cloud sales programs. Gross margin decreased slightly, primarily due to higher cost of revenue, driven by an increased mix of cloud offerings, offset in part by higher revenue. Gross margin included an unfavorable foreign currency impact of approximately 4%.

## **Intelligent Cloud**

Intelligent Cloud revenue increased \$415 million or 7%, mainly due to higher revenue from server products and cloud services and Enterprise Services. Revenue included an unfavorable foreign currency impact of approximately 3%.

- Server products and cloud services revenue grew \$253 million or 5%, driven by Azure revenue growth of 102%. Revenue included an unfavorable foreign currency impact of approximately 3%.
- Enterprise Services revenue grew \$159 million or 12%, driven by growth in Premier Support Services. Revenue included an unfavorable foreign currency impact of approximately 2%.

Intelligent Cloud operating income decreased \$443 million or 17%, primarily due to higher operating expenses. Operating expenses increased \$471 million or 22%, mainly due to higher research and development expenses and sales and marketing expenses, driven by strategic investments and acquisitions to drive cloud sales capacity and innovation. Gross margin increased slightly, mainly due to higher revenue, offset in part by higher cost of revenue, driven by an increased mix of cloud offerings. Gross margin included an unfavorable foreign currency impact of approximately 4%.

## **More Personal Computing**

More Personal Computing revenue decreased \$346 million or 4%, mainly due to lower revenue from Devices and Gaming, offset in part by higher revenue from search advertising and Windows. Revenue included an unfavorable foreign currency impact of approximately 2%.

- Devices revenue decreased \$782 million or 35%, mainly due to lower revenue from phones, driven by the change in strategy for the phone business, offset in part by higher Surface revenue. Phone revenue decreased \$870 million or 71%, driven by a reduction in volume of phones sold. Surface revenue increased \$76 million or 9%, primarily driven by the release of Surface Pro 4 and Surface Book in the second quarter of fiscal year 2016, offset in part by a decline in revenue from Surface Pro 3 and Surface 3.
- Gaming revenue decreased \$152 million or 9%, primarily due to lower Xbox hardware revenue, offset in part by higher revenue from Xbox Live. Xbox hardware revenue decreased 33%, mainly due to a decline in consoles sold and lower prices of consoles sold. Xbox Live revenue increased 4%, driven by higher volume of transactions and revenue per transaction.
- Search advertising revenue increased \$514 million or 54%. Search advertising revenue, excluding traffic acquisition costs, increased 16%, primarily driven by growth in Bing, due to higher revenue per search and higher search volume.
- Windows revenue increased slightly, mainly due to higher revenue from Windows OEM, offset in part by lower revenue from patent licensing. Windows OEM revenue increased 11%. Windows OEM non-Pro revenue grew 27%, outperforming the consumer PC market, driven by a higher mix of premium licenses sold. Windows OEM Pro revenue grew 2%, reflecting a stabilizing commercial PC market and a higher mix of business PCs sold with Windows Pro. Patent licensing revenue decreased 21%, due to a decline in licensed units and license revenue per unit. Windows revenue included an unfavorable foreign currency impact of approximately 3%.

More Personal Computing operating income increased \$359 million or 59%, primarily due to lower operating expenses, offset in part by lower gross margin. Operating expenses decreased \$508 million or 13%, mainly due to lower sales and marketing expenses and research and development expenses, driven by a reduction in phone expenses and the transition of our display sales responsibility. Gross margin decreased \$149 million or 3%, reflecting lower revenue, offset in part by a reduction in cost of revenue. The decline in cost of revenue was driven by a reduction in phone sales, offset in part by higher search advertising cost of revenue. Gross margin included an unfavorable foreign currency impact of approximately 3%.

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**EXPENSES**

- Research and development expenses increased \$52 million or 2%, primarily due to increased investment in our cloud platform, including headcount-related expenses, offset in part by a reduction in phone expenses, driven by the change in strategy for the phone business.
- Sales and marketing expenses increased \$37 million or 1%, primarily due to increased investment in commercial cloud and search advertising, offset in part by a reduction in phone expenses.
- General and administrative expenses increased \$29 million or 2%, primarily due to increased investment in infrastructure supporting our business transformation, offset in part by lower business taxes.
- Impairment, integration, and restructuring expenses were \$1.1 billion, compared to \$8.4 billion in the prior year. During the fourth quarter of fiscal year 2016, we recorded \$630 million of asset impairment charges which reflected the performance of our phone business, and \$480 million of restructuring charges primarily related to our previously announced phone business restructuring plans. During the fourth quarter of fiscal year 2015, we recorded \$7.5 billion of goodwill and asset impairment charges related to our phone business, and \$940 million of integration and restructuring expenses primarily related to our phone business restructuring plans.

**INCOME TAXES**

The effective tax rate was 7% for the current quarter, compared to (82)% in the prior year. The current quarter effective tax rate reflected a favorable mix of our income between the U.S. and foreign countries, as well as benefits associated with distributions from foreign affiliates. The prior year effective tax rate reflected impairment charges that were not tax deductible. The Non-GAAP effective tax rate for the current quarter was 15%, including adjustments for the net revenue deferral from Windows 10 and restructuring and related impairment charges as discussed above.

**OTHER INCOME, NET**

Other income, net decreased \$30 million, primarily driven by net gains on foreign currency in the prior year, offset by higher net gains recognized on sales of investments in the current year.