

MICROSOFT CORP
Form 10-Q
January 30, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2018

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

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of

incorporation or organization)

91-1144442
(I.R.S. Employer

Identification No.)

One Microsoft Way, Redmond, Washington
(Address of principal executive offices)

98052-6399
(Zip Code)

(425) 882-8080

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(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of January 25, 2019
Common Stock, \$0.00000625 par value per share	7,672,213,446 shares

MICROSOFT CORPORATION

FORM 10-Q

For the Quarter Ended December 31, 2018

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PART I

Item 1

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
Product	\$ 16,219	\$ 17,926	\$ 33,518	\$ 32,224
Service and other	16,252	10,992	28,037	21,232
Total revenue	32,471	28,918	61,555	53,456
Cost of revenue:				
Product	5,885	5,498	9,534	8,478
Service and other	6,538	5,566	12,794	10,864
Total cost of revenue	12,423	11,064	22,328	19,342
Gross margin	20,048	17,854	39,227	34,114
Research and development	4,070	3,504	8,047	7,078
Sales and marketing	4,588	4,562	8,686	8,374
General and administrative	1,132	1,109	2,281	2,275
Operating income	10,258	8,679	20,213	16,387
Other income, net	127	490	393	766
Income before income taxes	10,385	9,169	20,606	17,153
Provision for income taxes	1,965	15,471	3,362	16,879
Net income (loss)	\$ 8,420	\$ (6,302)	\$ 17,244	\$ 274

Earnings (loss) per share:

Basic	\$ 1.09	\$ (0.82)	\$ 2.24	\$ 0.04
Diluted	\$ 1.08	\$ (0.82)	\$ 2.22	\$ 0.04

Weighted average shares outstanding:

Basic	7,692	7,710	7,683	7,709
Diluted	7,768	7,710	7,767	7,799

Refer to accompanying notes.

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COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	\$ 8,420	\$ (6,302)	\$ 17,244	\$ 274
Other comprehensive income (loss), net of tax:				
Net change related to derivatives	(15)	(7)	(60)	(113)
Net change related to investments	881	(878)	620	(1,166)
Translation adjustments and other	(264)	(40)	(319)	253
Other comprehensive income (loss)	602	(925)	241	(1,026)
Comprehensive income (loss)	\$ 9,022	\$ (7,227)	\$ 17,485	\$ (752)

Refer to accompanying notes. Refer to Note 16 – Accumulated Other Comprehensive Income (Loss) for further information.

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BALANCE SHEETS

(In millions) (Unaudited)

	December 31, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$6,638	\$11,946
Short-term investments	121,024	121,822
Total cash, cash equivalents, and short-term investments	127,662	133,768
Accounts receivable, net of allowance for doubtful accounts of \$354 and \$377	19,680	26,481
Inventories	1,961	2,662
Other	7,571	6,751
Total current assets	156,874	169,662
Property and equipment, net of accumulated depreciation of \$33,082 and \$29,223	32,717	29,460
Operating lease right-of-use assets	6,806	6,686
Equity investments	2,274	1,862
Goodwill	41,577	35,683
Intangible assets, net	8,482	8,053
Other long-term assets	10,129	7,442
Total assets	\$258,859	\$258,848
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$7,563	\$8,617
Current portion of long-term debt	3,516	3,998
Accrued compensation	4,624	6,103
Short-term income taxes	2,033	2,121
Short-term unearned revenue	24,285	28,905
Other	8,297	8,744

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Total current liabilities	50,318	58,488
Long-term debt	69,653	72,242
Long-term income taxes	29,161	30,265
Long-term unearned revenue	3,799	3,815
Deferred income taxes	2,062	541
Operating lease liabilities	5,683	5,568
Other long-term liabilities	6,055	5,211
Total liabilities	166,731	176,130
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,683 and 7,677	77,556	71,223
Retained earnings	16,585	13,682
Accumulated other comprehensive loss	(2,013)	(2,187)
Total stockholders' equity	92,128	82,718
Total liabilities and stockholders' equity	\$258,859	\$258,848

Refer to accompanying notes.

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CASH FLOWS STATEMENTS

(In millions) (Unaudited)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Operations				
Net income (loss)	\$8,420	\$(6,302)	\$17,244	\$274
Adjustments to reconcile net income (loss) to net cash from operations:				
Depreciation, amortization, and other	2,995	2,536	5,832	5,035
Stock-based compensation expense	1,183	986	2,290	1,959
Net recognized gains on investments and derivatives	(135)	(684)	(375)	(1,207)
Deferred income taxes	(173)	(2,305)	(420)	(2,358)
Changes in operating assets and liabilities:				
Accounts receivable	(2,396)	(3,908)	6,798	4,041
Inventories	1,654	1,205	698	182
Other current assets	(173)	354	(850)	36
Other long-term assets	(473)	(344)	(452)	(622)
Accounts payable	(440)	938	(835)	531
Unearned revenue	(2,122)	(1,065)	(4,563)	(2,871)
Income taxes	(64)	15,974	(1,155)	16,635
Other current liabilities	656	643	(1,666)	(1,521)
Other long-term liabilities	(32)	(153)	11	201
Net cash from operations	8,900	7,875	22,557	20,315
Financing				
Proceeds from issuance of short-term debt, maturities of 90 days or less, net	0	3,759	0	49
Proceeds from issuance of debt	0	3,229	0	7,183
Repayments of debt	(3,000)	(3,327)	(3,000)	(4,496)
Common stock issued	200	189	560	496
Common stock repurchased	(6,413)	(2,008)	(10,157)	(4,578)
Common stock cash dividends paid	(3,544)	(3,238)	(6,764)	(6,241)
Other, net	(459)	(156)	(1,239)	(306)
Net cash used in financing	(13,216)	(1,552)	(20,600)	(7,893)

Investing

Additions to property and equipment	(3,707)	(2,586)	(7,309)	(4,718)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(1,593)	(27)	(1,838)	(206)
Purchases of investments	(16,858)	(45,154)	(36,409)	(78,115)
Maturities of investments	3,782	6,352	8,996	11,578
Sales of investments	14,176	41,261	29,407	64,297
Securities lending payable	0	(177)	0	(71)
Net cash used in investing	(4,200)	(331)	(7,153)	(7,235)
Effect of foreign exchange rates on cash and cash equivalents	17	(17)	(112)	9
Net change in cash and cash equivalents	(8,499)	5,975	(5,308)	5,196
Cash and cash equivalents, beginning of period	15,137	6,884	11,946	7,663
Cash and cash equivalents, end of period	\$6,638	\$12,859	\$6,638	\$12,859

Refer to accompanying notes.

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STOCKHOLDERS' EQUITY STATEMENTS

(In millions) (Unaudited)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Common stock and paid-in capital				
Balance, beginning of period	\$71,303	\$69,419	\$71,223	\$69,315
Common stock issued	5,887	189	6,247	496
Common stock repurchased	(828)	(402)	(2,215)	(1,577)
Stock-based compensation expense	1,183	986	2,290	1,959
Other, net	11	0	11	(1)
Balance, end of period	77,556	70,192	77,556	70,192
Retained earnings				
Balance, beginning of period	17,279	19,702	13,682	17,769
Net income (loss)	8,420	(6,302)	17,244	274
Common stock cash dividends	(3,546)	(3,232)	(7,074)	(6,471)
Common stock repurchased	(5,568)	(1,601)	(7,944)	(3,005)
Cumulative effect of accounting changes	0	0	677	0
Balance, end of period	16,585	8,567	16,585	8,567
Accumulated other comprehensive income (loss)				
Balance, beginning of period	(2,615)	526	(2,187)	627
Other comprehensive income (loss)	602	(925)	241	(1,026)
Cumulative effect of accounting changes	0	0	(67)	0
Balance, end of period	(2,013)	(399)	(2,013)	(399)
Total stockholders' equity	\$92,128	\$78,360	\$92,128	\$78,360

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Cash dividends declared per common share	\$0.46	\$0.42	\$0.92	\$0.84
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Refer to accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Microsoft Corporation fiscal year 2018 Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on August 3, 2018.

We have recast certain prior period amounts related to investments, derivatives, and fair value measurements to conform to the current period presentation based on our adoption of the new accounting standard for financial instruments. We have also recast prior period commercial cloud revenue to include the commercial portion of LinkedIn to provide a comparable view of our commercial cloud business performance. The commercial portion of LinkedIn includes LinkedIn Recruiter, Sales Navigator, premium business subscriptions, and other services for organizations. The recast of these prior period amounts had no impact on our consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price of performance obligations, variable consideration, and other obligations such as product returns and refunds; loss contingencies; product warranties; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; product life cycles; useful lives of our tangible and intangible assets; allowances for doubtful accounts; the market value of, and demand for, our inventory; stock-based compensation forfeiture rates; when technological feasibility is achieved for our products; the potential outcome of future tax consequences of events that have been recognized on our consolidated financial statements or tax returns; and determining the timing and amount of impairments for investments. Actual results and outcomes may differ from management’s estimates and assumptions.

Financial Instruments

Investments

We consider all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

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Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding other-than-temporary impairments, are recorded in other comprehensive income (“OCI”). Debt investments are impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the duration and extent to which the fair value is less than cost. We also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. In addition, we consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in other income (expense), net and a new cost basis in the investment is established.

Equity investments with readily determinable fair values are measured at fair value. Equity investments without readily determinable fair values are measured using the equity method, or measured at cost with adjustments for observable changes in price or impairments (referred to as the measurement alternative). We perform a qualitative assessment on a quarterly basis and recognize an impairment if there are sufficient indicators that the fair value of the investment is less than carrying value. Changes in value are recorded in other income (expense), net.

We lend certain fixed-income and equity securities to increase investment returns. These transactions are accounted for as secured borrowings and the loaned securities continue to be carried as investments on our consolidated balance sheets. Cash and/or security interests are received as collateral for the loaned securities with the amount determined based upon the underlying security lent and the creditworthiness of the borrower. Cash received is recorded as an asset with a corresponding liability.

Derivatives

Derivative instruments are recognized as either assets or liabilities and measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as fair value hedges, gains and losses are recognized in other income (expense), net with offsetting gains and losses on the hedged items. For options designated as fair value hedges, changes in the time value are excluded from the assessment of hedge effectiveness and recognized in other income (expense), net.

For derivative instruments designated as cash flow hedges, the effective portion of the gains and losses are initially reported as a component of OCI and subsequently recognized in revenue when the hedged exposure is recognized in revenue. Gains and losses on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in other income (expense), net.

For derivative instruments that are not designated as hedges, gains and losses from changes in fair values are primarily recognized in other income (expense), net.

Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments in active markets. Our Level 1 investments include U.S. government securities, common and preferred stock, and mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.

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Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies. Our Level 2 investments include commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter option and swap contracts.

Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 assets and liabilities include investments in corporate notes and bonds, and goodwill and intangible assets, when they are recorded at fair value due to an impairment charge. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

We measure equity investments without readily determinable fair values on a nonrecurring basis. The fair values of these investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections.

Our other current financial assets and current financial liabilities have fair values that approximate their carrying values.

Contract Balances

As of December 31, 2018 and June 30, 2018, long-term accounts receivable, net of allowance for doubtful accounts, were \$1.9 billion and \$1.8 billion, respectively, and are included in other long-term assets on our consolidated balance sheets.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

Income Taxes – Intra-Entity Asset Transfers

In October 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. We adopted the guidance effective July 1, 2018. Adoption of the guidance was applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We recorded a net cumulative-effect adjustment that resulted in an increase in retained earnings of \$557 million, which reversed the previous deferral of income tax consequences and recorded new deferred tax assets from intra-entity transfers involving assets other than inventory, partially offset by a U.S. deferred tax liability related to global intangible low-taxed income (“GILTI”). Adoption of the standard resulted in an increase in long-term deferred tax assets of \$2.8 billion, an increase in long-term deferred tax liabilities of \$2.1 billion, and a reduction in other current assets of \$152 million. As a result of the Tax Cuts and Jobs Act (“TCJA”), we are continuing to evaluate the impact of this standard on our consolidated financial statements, including accounting

policies, processes, and systems. Adoption of the standard had no impact to cash from or used in operating, financing, or investing on our consolidated cash flows statements.

Financial Instruments – Recognition, Measurement, Presentation, and Disclosure

In January 2016, the FASB issued a new standard related to certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the changes in the standard is the requirement for changes in the fair value of our equity investments, with certain exceptions, to be recognized through net income rather than OCI.

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We adopted the standard effective July 1, 2018. Adoption of the standard was applied using a modified retrospective approach through a cumulative-effect adjustment from accumulated other comprehensive income (“AOCI”) to retained earnings as of the effective date, and we elected to measure equity investments without readily determinable fair values at cost with adjustments for observable changes in price or impairments. The cumulative-effect adjustment included any previously held unrealized gains and losses held in AOCI related to our equity investments carried at fair value as well as the impact of recording the fair value of certain equity investments carried at cost. The impact on our consolidated balance sheets upon adoption was not material. Adoption of the standard had no impact to cash from or used in operating, financing, or investing on our consolidated cash flows statements.

Recent Accounting Guidance Not Yet Adopted

Financial Instruments – Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued new guidance related to accounting for hedging activities. This guidance expands strategies that qualify for hedge accounting, changes how many hedging relationships are presented in the financial statements, and simplifies the application of hedge accounting in certain situations. The standard will be effective for us beginning July 1, 2019, with early adoption permitted for any interim or annual period before the effective date. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

Financial Instruments – Credit Losses

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for us beginning July 1, 2020, with early adoption permitted beginning July 1, 2019. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

NOTE 2 — EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

The components of basic and diluted EPS were as follows:

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(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income (loss) available for common shareholders (A)	\$ 8,420	\$ (6,302)	\$ 17,244	\$ 274
Weighted average outstanding shares of common stock (B)	7,692	7,710	7,683	7,709
Dilutive effect of stock-based awards	76	0	84	90
Common stock and common stock equivalents (C)	7,768	7,710	7,767	7,799
Earnings (Loss) Per Share				
Basic (A/B)	\$ 1.09	\$ (0.82)	\$ 2.24	\$ 0.04
Diluted (A/C)	\$ 1.08	\$ (0.82)	\$ 2.22	\$ 0.04

Anti-dilutive stock-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented. In periods where we recognized a net loss, we excluded the impact of potentially dilutive outstanding stock-based awards from the calculation of diluted loss per share as their inclusion would have an antidilutive effect.

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NOTE 3 — OTHER INCOME (EXPENSE), NET

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

(In millions)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Interest and dividends income	\$ 704	\$ 530	\$ 1,385	\$ 1,003
Interest expense	(672)	(698)	(1,346)	(1,370)
Net recognized gains on investments	94	768	337	1,341
Net gains (losses) on derivatives	41	(84)	38	(134)
Net losses on foreign currency remeasurements	(74)	(60)	(69)	(69)
Other, net	34	34	48	(5)
Total	\$ 127	\$ 490	\$ 393	\$ 766

Net Recognized Gains (Losses) on Investments

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

(In millions)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Realized gains from sales of available-for-sale securities	\$ 6	\$ 5	\$ 13	\$ 18
Realized losses from sales of available-for-sale securities	(5)	(259)	(90)	(339)
Other-than-temporary impairments of investments	(7)	(4)	(7)	(5)

Total \$ (6) \$ (258) \$ (84) \$ (326)

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

(In millions)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net realized gains on investments sold	\$ 30	\$ 1,046	\$ 233	\$ 1,692
Net unrealized gains on investments still held	73	0	191	0
Impairments of investments	(3)	(20)	(3)	(25)
Total	\$ 100	\$ 1,026	\$ 421	\$ 1,667

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NOTE 4 — INVESTMENTS

Investment Components

The components of investments were as follows:

(In millions)	Fair Value Level	Unrealized			Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
		Cost Basis	Gains	Losses				
December 31, 2018								
Changes in Fair Value Recorded in								
Other Comprehensive Income								
Commercial paper	Level 2	\$ 1,306	\$ 0	\$ 0	\$ 1,306	\$ 1,207	\$ 99	\$ 0
Certificates of deposit	Level 2	1,440	0	0	1,440	1,024	416	0
U.S. government securities	Level 1	103,915	422	(707)	103,630	3	103,627	0
U.S. agency securities	Level 2	290	0	0	290	0	290	0
Foreign government bonds	Level 2	6,412	1	(11)	6,402	1,029	5,373	0
Mortgage- and asset-backed securities	Level 2	3,540	3	(15)	3,528	0	3,528	0
Corporate notes and bonds	Level 2	7,445	14	(79)	7,380	15	7,365	0
Corporate notes and bonds	Level 3	15	0	0	15	0	15	0
Municipal securities	Level 2	268	35	(1)	302	0	302	0
Total debt investments		\$ 124,631	\$ 475	\$ (813)	\$ 124,293	\$ 3,278	\$ 121,015	\$ 0

Changes in Fair Value
Recorded in

Net Income

Equity investments	Level 1			\$ 584	\$ 321	\$ 20	\$ 243
Equity investments	Other			2,031	0	0	2,031

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Total equity investments	\$2,615	\$ 321	\$ 20	\$ 2,274
Cash	\$3,039	\$ 3,039	\$ 0	\$ 0
Derivatives, net ^(a)	(11)	0	(11)	0
Total	\$129,936	\$ 6,638	\$ 121,024	\$ 2,274

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PART I

Item 1

(In millions)	Fair Value Level	Unrealized Cost Basis	Unrealized		Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
			Gains	Losses				
June 30, 2018								
Changes in Fair Value Recorded in								
Other Comprehensive Income								
Commercial paper	Level 2	\$2,513	\$ 0	\$ 0	\$2,513	\$ 2,215	\$ 298	\$ 0
Certificates of deposit	Level 2	2,058	0	0	2,058	1,865	193	0
U.S. government securities	Level 1	108,120	62	(1,167)	107,015	2,280	104,735	0
U.S. agency securities	Level 2	1,742	0	0	1,742	1,398	344	0
Foreign government bonds	Level 1	22	0	0	22	0	22	0
Foreign government bonds	Level 2	5,063	1	(10)	5,054	0	5,054	0
Mortgage- and asset-backed securities	Level 2	3,864	4	(13)	3,855	0	3,855	0
Corporate notes and bonds	Level 2	6,929	21	(56)	6,894	0	6,894	0
Corporate notes and bonds	Level 3	15	0	0	15	0	15	0
Municipal securities	Level 2	271						