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 September 30, 2026

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From to

Commission File Number 001-37845

MICROSOFT CORPORATION

WASHINGTON	**91-1144442**
(STATE OF INCORPORATION)	**(I.R.S. ID)**

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399
(425) 882-8080
www.microsoft.com/investor

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

Title of each class	Trading Symbol	Name of exchange on which registered
Common stock, $0.00000625 par value per share	**MSFT**	**NASDAQ**
3.125% Notes due 2028	**MSFT**	**NASDAQ**
2.625% Notes due 2033	**MSFT**	**NASDAQ**

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

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

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

Large Accelerated Filer ☒
Accelerated Filer ☐
Non-accelerated Filer ☐
Smaller Reporting Company ☐
Emerging Growth Company ☐

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

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

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

Class	**Outstanding as of October 22, 2026**
Common Stock, $0.00000625 par value per share	7,426,194,552 shares

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FORM 10-Q
For the Quarter Ended September 30, 2026
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME STATEMENTS

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

Three Months Ended September 30,	2026	2025
Revenue:		
Product	**$ 14,631**	$ 15,922
Service and other	**77,648**	61,751
Total revenue	**92,279**	77,673
Cost of revenue:		
Product	**2,471**	2,922
Service and other	**27,249**	21,121
Total cost of revenue	**29,720**	24,043
Gross margin	**62,559**	53,630
Research and development	**9,047**	8,146
Sales and marketing	**5,716**	5,717
General and administrative	**1,881**	1,806
Operating income	**45,915**	37,961
Other income (expense), net	**38**	(3,660)
Income before income taxes	**45,953**	34,301
Provision for income taxes	**9,324**	6,554
Net income	**$ 36,629**	$ 27,747
Earnings per share:		
Basic	**$ 4.93**	$ 3.73
Diluted	**$ 4.92**	$ 3.72
Weighted average shares outstanding:		
Basic	**7,426**	7,433
Diluted	**7,446**	7,466

Refer to accompanying notes.

COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)

Three Months Ended September 30,	**2026**	**2025**
Net income	**$ 36,629**	$ 27,747
Other comprehensive income (loss), net of tax:		
Net change related to derivatives	**3**	(3)
Net change related to investments	**(559)**	687
Translation adjustments and other	**(17)**	(98)
Other comprehensive income (loss)	**(573)**	586
Comprehensive income	**$ 36,056**	$ 28,333

Refer to accompanying notes.

BALANCE SHEETS

(In millions) (Unaudited)

	September 30, 2026	June 30, 2026
Assets		
Current assets:		
Cash and cash equivalents	**$ 20,281**	$ 20,935
Short-term investments	**44,228**	55,908
Total cash, cash equivalents, and short-term investments	**64,509**	76,843
Accounts receivable, net of allowance for doubtful accounts of **$728** and $1,040	**62,084**	80,876
Inventories	**1,835**	1,397
Other current assets	**57,709**	48,594
Total current assets	**186,137**	207,710
Property and equipment, net of accumulated depreciation of **$127,208** and $118,691	**346,844**	313,076
Operating lease right-of-use assets	**30,178**	24,177
Equity and other investments	**37,808**	36,348
Goodwill	**119,646**	119,651
Intangible assets, net	**17,751**	18,609
Other long-term assets	**41,039**	38,805
Total assets	**$ 779,403**	$ 758,376
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 42,625**	$ 42,416
Current portion of long-term debt	**4,391**	9,227
Accrued compensation	**10,156**	14,945
Short-term income taxes	**1,447**	2,534
Short-term unearned revenue	**66,866**	72,965
Other current liabilities	**26,483**	26,738
Total current liabilities	**151,968**	168,825
Long-term debt	**31,090**	31,067
Long-term income taxes	**29,235**	28,647
Long-term unearned revenue	**2,697**	2,747
Deferred income taxes	**3,174**	3,054
Operating lease liabilities	**21,719**	16,532
Other long-term liabilities	**69,011**	65,117
Total liabilities	**308,894**	315,989
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding **7,427** and 7,427	**119,571**	117,406
Retained earnings	**354,795**	328,265
Accumulated other comprehensive loss	**(3,857)**	(3,284)
Total stockholders' equity	**470,509**	442,387
Total liabilities and stockholders' equity	**$ 779,403**	$ 758,376

Refer to accompanying notes.

CASH FLOWS STATEMENTS

(In millions) (Unaudited)

Three Months Ended September 30,	2026	2025
Operations		
Net income	**$ 36,629**	$ 27,747
Adjustments to reconcile net income to net cash from operations:		
Depreciation, amortization, and other	**11,744**	8,147
Stock-based compensation expense	**3,134**	2,983
Net recognized losses (gains) on investments and derivatives	**(231)**	3,907
Deferred income taxes	**4,609**	2,491
Changes in operating assets and liabilities:		
Accounts receivable	**17,104**	16,490
Inventories	**(436)**	(192)
Other current assets	**(1,903)**	(1,162)
Other long-term assets	**(6,389)**	(394)
Accounts payable	**525**	(614)
Unearned revenue	**(5,942)**	(5,418)
Income taxes	**(556)**	(2,944)
Other current liabilities	**(4,528)**	(5,507)
Other long-term liabilities	**4,240**	(477)
Net cash from operations	**58,000**	45,057
Financing		
Repayments of debt	**(4,850)**	0
Common stock issued	**598**	689
Common stock repurchased	**(4,379)**	(5,650)
Common stock cash dividends paid	**(6,757)**	(6,169)
Other, net	**(1,252)**	(669)
Net cash used in financing	**(16,640)**	(11,799)
Investing		
Additions to property and equipment	**(39,367)**	(19,394)
Acquisition of companies, net of cash acquired and divestitures, and purchases of intangible and other assets	**(397)**	(578)
Purchases of investments	**(5,394)**	(17,671)
Maturities of investments	**5,672**	6,031
Sales of investments	**10,470**	3,262
Other, net	**(12,949)**	(6,209)
Net cash used in investing	**(41,965)**	(34,559)
Effect of foreign exchange rates on cash and cash equivalents	**(49)**	(92)
Net change in cash and cash equivalents	**(654)**	(1,393)
Cash and cash equivalents, beginning of period	**20,935**	30,242
Cash and cash equivalents, end of period	**$ 20,281**	$ 28,849

Refer to accompanying notes.

STOCKHOLDERS' EQUITY STATEMENTS

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

Three Months Ended September 30,	2026	2025
Common stock and paid-in capital		
Balance, beginning of period	**$ 117,406**	$ 109,095
Common stock issued	**598**	689
Common stock repurchased	**(1,566)**	(1,801)
Stock-based compensation expense	**3,134**	2,983
Other, net	**(1)**	(2)
Balance, end of period	**119,571**	110,964
Retained earnings		
Balance, beginning of period	**328,265**	237,731
Net income	**36,629**	27,747
Common stock cash dividends	**(7,277)**	(6,764)
Common stock repurchased	**(2,822)**	(3,841)
Balance, end of period	**354,795**	254,873
Accumulated other comprehensive loss		
Balance, beginning of period	**(3,284)**	(3,347)
Other comprehensive income (loss)	**(573)**	586
Balance, end of period	**(3,857)**	(2,761)
Total stockholders' equity	**$ 470,509**	$ 363,076
Cash dividends declared per common share	**$ 0.98**	$ 0.91

Refer to accompanying notes.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. 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 2026 Form 10-K filed with the U.S. Securities and Exchange Commission on July 29, 2026.

Principles of Consolidation

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

Recast of Certain Prior Period Information

In September 2026, we announced changes in our segment reporting structure. These changes align our segments with how we currently manage our business, creating the Agents and Infra segment that brings together our applications and agents, our multi-model system, and Azure infrastructure, and the Devices and Consumer segment that comprises our key consumer offerings. Beginning in fiscal year 2027, the information that our chief operating decision maker ("CODM") is regularly provided and reviews for purposes of allocating resources and assessing performance reflects these segment changes. Prior period segment information has been recast to conform to the way we internally manage and monitor our business during fiscal year 2027. These changes impacted Note 7 – Goodwill and Note 16 – Segment Information and Geographic Data.

We have also recast certain prior period amounts on our consolidated cash flows statements to conform to the current period presentation. The recast of these prior period amounts had no impact on our consolidated balance sheets, consolidated income statements, or net cash from (used in) operations, investing, or financing on our consolidated cash flows statements.

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; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; useful lives of our tangible and intangible assets; allowances for doubtful accounts; stock-based compensation forfeiture rates; when technological feasibility is achieved for our products; the potential outcome of uncertain tax positions that have been recognized in our consolidated financial statements or tax returns; and determining the timing and amount of measurement adjustments or impairments for investments. Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties.

Financial Instruments

Investments

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

Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding credit losses and impairments, are recorded in other comprehensive income. Fair value is calculated based on publicly available market information or other estimates determined by management. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the extent to which the fair value is less than cost. To determine credit losses, we employ a systematic methodology that considers available quantitative and qualitative evidence. In addition, we consider specific adverse conditions related to the financial health of, and business outlook for, the investee. If we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery, then a decline in fair value below cost is recorded as an impairment charge in other income (expense), net and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

Equity investments with readily determinable fair values are generally measured at fair value. Equity investments that are not recorded at fair value are measured using the equity method of accounting when required or measured at cost less impairments, if any, with adjustments for observable changes in price (referred to as the measurement alternative). Identifying observable changes in price requires judgment in evaluating whether transactions are orderly and whether the securities are comparable, including consideration of the rights and preferences of the securities, the composition of the investor group, and other relevant facts and circumstances. For equity investments not recorded at fair value, we perform a qualitative assessment on a periodic basis and recognize an impairment if there are sufficient indicators that the fair value of the investment is less than carrying value. Changes in fair value are recorded in other income (expense), net. Equity method investments may be recorded on a lag of up to three months when sufficient financial information is not available in a timely manner. For equity method investments recorded on a lag, we recognize the impact of intervening events that have a material impact on our consolidated financial statements in the period in which they occurred.

Investments that are considered variable interest entities ("VIEs") are evaluated to determine whether we are the primary beneficiary of the VIE, in which case we would be required to consolidate the entity. We evaluate whether we have (1) the power to direct the activities that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. We have determined we are not the primary beneficiary of any of our VIE investments. Therefore, our VIE investments are not consolidated and the majority are accounted for under the equity method of accounting or the measurement alternative.

We have a long-term strategic partnership with OpenAI. We have an investment accounted for under the equity method that represents an approximate 24% interest on an as-converted basis. As an equity method investee, OpenAI is a related party as defined in Accounting Standards Codification Topic 850, Related Party Disclosures ("ASC 850"). In accordance with ASC 850, we are disclosing revenue and accounts receivable balances from transactions with OpenAI. For the three months ended September 30, 2026, we recorded revenue from commercial arrangements with OpenAI, inclusive of revenue-sharing payments, of $10.0 billion. Accounts receivable from OpenAI as of September 30, 2026 and June 30, 2026 was $7.2 billion and $6.0 billion, respectively. We have made total funding commitments of $13.0 billion related to our investment, of which $12.0 billion has been funded as of September 30, 2026. We calculate our equity method income or loss using the hypothetical liquidation at book value ("HLBV") method because our liquidation rights and priorities differ from our underlying ownership interest. Under the HLBV method, we recognize income or loss based on the change in the amount we would receive if the net assets of the investee were distributed at book value.

Derivatives

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

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

For derivative instruments designated as cash flow hedges, gains and losses are initially reported as a component of other comprehensive income and subsequently recognized in other income (expense), net with the corresponding hedged item. Gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in other income (expense), net.

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

Fair Value Measurements

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

- *Level 1* – inputs are based upon unadjusted quoted prices for identical instruments in active markets. Our Level 1 investments include U.S. government securities, common and preferred stock, and mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.
- *Level 2* – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies. Our Level 2 investments include commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Our Level 2 derivative assets and liabilities include certain cleared swap contracts and over-the-counter forward, option, and swap contracts.
- *Level 3* – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 assets and liabilities include investments in corporate notes and bonds, municipal securities, and goodwill and intangible assets, when they are recorded at fair value due to an impairment charge. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

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

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

Contract Balances and Other Receivables

As of September 30, 2026 and June 30, 2026, long-term accounts receivable, net of allowance for doubtful accounts, was $5.6 billion and $5.5 billion, respectively, and is included in other long-term assets in our consolidated balance sheets.

As of September 30, 2026 and June 30, 2026, the current portion of other receivables related to activities to facilitate the purchase of server components was $35.7 billion and $27.8 billion, respectively, and are included in other current assets in our consolidated balance sheets. Additionally, as of September 30, 2026 and June 30, 2026, restricted investments pursuant to a supplier agreement were $12.6 billion and $11.3 billion, respectively, with $4.0 billion and $3.8 billion included in short-term investments and $8.6 billion and $7.5 billion included in equity and other investments in our consolidated balance sheet.

We record financing receivables when we offer certain customers the option to acquire our software products and services offerings through a financing program in a limited number of countries. As of September 30, 2026 and June 30, 2026, our financing receivables, net were $3.5 billion and $3.7 billion, respectively, for short-term and long-term financing receivables, which are included in other current assets and other long-term assets in our consolidated balance sheets.

We record an allowance for doubtful accounts which reflects our best estimate of credit losses inherent in the accounts receivable and financing receivable balances. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Recent Accounting Guidance

Income Statement – Disaggregation of Income Statement Expenses

In November 2024, the Financial Accounting Standards Board issued a new standard to expand disclosures about income statement expenses. The guidance requires disaggregation of certain costs and expenses included in each relevant expense caption on our consolidated income statements in a separate note to the financial statements at each interim and annual reporting period, including amounts of purchases of inventory, employee compensation, depreciation, and intangible asset amortization. The standard will be effective for us beginning with our annual reporting for fiscal year 2028 and interim periods thereafter, with early adoption permitted. We are currently evaluating the impact of this standard on our disclosures.

NOTE 2 — EARNINGS PER SHARE

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

The components of basic and diluted EPS were as follows:

(In millions, except per share amounts)

Three Months Ended September 30,		**2026**		**2025**
Net income available for common shareholders (A)	**$**	**36,629**	$	27,747
Weighted average outstanding shares of common stock (B)		**7,426**		7,433
Dilutive effect of stock-based awards		**20**		33
Common stock and common stock equivalents (C)		**7,446**		7,466
Earnings Per Share				
Basic (A/B)	**$**	**4.93**	$	3.73
Diluted (A/C)	**$**	**4.92**	$	3.72

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

NOTE 3 — OTHER INCOME (EXPENSE), NET

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

(In millions)

Three Months Ended September 30,		**2026**		**2025**
Interest and dividends income	**$**	**744**	$	976
Interest expense		**(870)**		(698)
Net recognized losses on investments		**(46)**		(572)
Net gains (losses) on derivatives		**(42)**		1,579
Net losses on foreign currency remeasurements		**(30)**		(22)
Other, net		**282**		(4,923)
Total	**$**	**38**	$	(3,660)

Other income (expense), net included $272 million of net gains and $4.1 billion of net losses for the three months ended September 30, 2026 and 2025, respectively, from investments in OpenAI.

Net Recognized Gains (Losses) on Investments

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

(In millions) Three Months Ended September 30,	2026	2025
Realized gains from sales of available-for-sale securities	**$ 12**	$ 16
Realized losses from sales of available-for-sale securities	**(18)**	(10)
Impairments and allowance for credit losses	**(35)**	4
Total	**$ (41)**	$ 10

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

(In millions) Three Months Ended September 30,	2026	2025
Net realized gains on investments sold	**$ 74**	$ 71
Net unrealized losses on investments still held	**(60)**	(635)
Impairments of investments	**(19)**	(18)
Total	**$ (5)**	$ (582)

NOTE 4 — INVESTMENTS

Investment Components

The components of investments were as follows:

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
September 30, 2026								
Changes in Fair Value Recorded in Other Comprehensive Income								
Commercial paper	Level 2	$ 1,184	$ 0	$ 0	$ 1,184	$ 1,182	$ 2	$ 0
Certificates of deposit	Level 2	1,844	0	0	1,844	1,800	44	0
U.S. government securities	Level 1	42,694	0	(1,587)	41,107	1,072	31,427	8,608
U.S. agency securities	Level 2	608	0	0	608	599	9	0
Foreign government bonds	Level 2	203	7	(10)	200	0	200	0
Mortgage- and asset-backed securities	Level 2	1,500	3	(43)	1,460	0	1,460	0
Corporate notes and bonds	Level 2	10,799	11	(267)	10,543	0	10,543	0
Corporate notes and bonds	Level 3	1,602	120	0	1,722	0	102	1,620
Municipal securities	Level 2	148	0	(11)	137	0	137	0
Municipal securities	Level 3	105	0	(16)	89	0	89	0
Total debt investments		$ 60,687	$ 141	$ (1,934)	$ 58,894	$ 4,653	$ 44,013	$ 10,228
Changes in Fair Value Recorded in Net Income								
Equity investments	Level 1				$ 4,263	$ 1,598	$ 0	$ 2,665
Equity investments	Other				24,915	0	0	24,915
Total equity investments					$ 29,178	$ 1,598	$ 0	$ 27,580
Cash					$ 14,030	$ 14,030	$ 0	$ 0
Derivatives, net [(a)]					215	0	215	0
Total					$ 102,317	$ 20,281	$ 44,228	$ 37,808

(In millions)	Fair Value Level	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
June 30, 2026								
Changes in Fair Value Recorded in Other Comprehensive Income								
Commercial paper	Level 2	$ 2,987	$ 0	$ 0	$ 2,987	$ 2,373	$ 614	$ 0
Certificates of deposit	Level 2	1,745	0	0	1,745	1,701	44	0
U.S. government securities	Level 1	49,714	2	(1,154)	48,562	399	40,675	7,488
U.S. agency securities	Level 2	3,133	0	0	3,133	1,787	1,346	0
Foreign government bonds	Level 2	221	12	(7)	226	0	226	0
Mortgage- and asset-backed securities	Level 2	1,813	5	(23)	1,795	0	1,795	0
Corporate notes and bonds	Level 2	10,682	49	(71)	10,660	0	10,660	0
Corporate notes and bonds	Level 3	1,618	120	0	1,738	0	118	1,620
Municipal securities	Level 2	152	0	(5)	147	0	147	0
Municipal securities	Level 3	105	0	(14)	91	0	91	0
Total debt investments		$ 72,170	$ 188	$ (1,274)	$ 71,084	$ 6,260	$ 55,716	$ 9,108
Changes in Fair Value Recorded in Net Income								
Equity investments	Level 1				$ 4,289	$ 1,616	$ 0	$ 2,673
Equity investments	Other				24,567	0	0	24,567
Total equity investments					$ 28,856	$ 1,616	$ 0	$ 27,240
Cash					$ 13,059	$ 13,059	$ 0	$ 0
Derivatives, net [(a)]					192	0	192	0
Total					$ 113,191	$ 20,935	$ 55,908	$ 36,348

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

Equity investments presented as “Other” in the tables above include investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments, measured using the equity method, or measured at fair value using net asset value as a practical expedient which are not categorized in the fair value hierarchy. As of both September 30, 2026 and June 30, 2026, equity investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments were $12.4 billion. As of September 30, 2026 and June 30, 2026, equity investments measured using the equity method were $12.4 billion and $12.0 billion, respectively.

Unrealized Losses on Debt Investments

Debt investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

(In millions)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
September 30, 2026						
U.S. government and agency securities	**$ 16,229**	**$ (377)**	**$ 19,542**	**$ (1,210)**	**$ 35,771**	**$ (1,587)**
Foreign government bonds	**104**	**(3)**	**27**	**(7)**	**131**	**(10)**
Mortgage- and asset-backed securities	**1,138**	**(21)**	**120**	**(22)**	**1,258**	**(43)**
Corporate notes and bonds	**8,739**	**(208)**	**1,100**	**(59)**	**9,839**	**(267)**
Municipal securities	**23**	**(1)**	**144**	**(26)**	**167**	**(27)**
Total	**$ 26,233**	**$ (610)**	**$ 20,933**	**$ (1,324)**	**$ 47,166**	**$ (1,934)**

(In millions)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2026						
U.S. government and agency securities	$ 19,100	$ (100)	$ 22,042	$ (1,054)	$ 41,142	$ (1,154)
Foreign government bonds	74	(1)	30	(6)	104	(7)
Mortgage- and asset-backed securities	905	(5)	129	(18)	1,034	(23)
Corporate notes and bonds	5,066	(31)	909	(40)	5,975	(71)
Municipal securities	0	0	122	(19)	122	(19)
Total	$ 25,145	$ (137)	$ 23,232	$ (1,137)	$ 48,377	$ (1,274)

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

Debt Investment Maturities

The following table outlines maturities of our debt investments as of September 30, 2026:

(In millions)	Adjusted Cost Basis	Estimated Fair Value
September 30, 2026		
Due in one year or less	**$ 18,544**	**$ 18,474**
Due after one year through five years	**36,882**	**35,274**
Due after five years through 10 years	**4,044**	**4,051**
Due after 10 years	**1,217**	**1,095**
Total	**$ 60,687**	**$ 58,894**

NOTE 5 — DERIVATIVES

We use derivative instruments to manage risks related to foreign currencies, interest rates, equity prices, and credit; to enhance investment returns; and to facilitate portfolio diversification. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment.

Foreign Currencies

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions.

Foreign currency risks related to certain Euro-denominated debt are hedged using foreign exchange forward contracts that are designated as cash flow hedging instruments.

Certain options and forwards not designated as hedging instruments are also used to manage the variability in foreign exchange rates on certain balance sheet amounts and to manage other foreign currency exposures.

Interest Rate

Interest rate risks related to certain fixed-rate debt are hedged using interest rate swaps that are designated as fair value hedging instruments to effectively convert the fixed interest rates to floating interest rates.

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using option, futures, and swap contracts. These contracts are not designated as hedging instruments and are included in “Other contracts” in the tables below.

Equity

Securities held in our equity investments portfolio are subject to market price risk. At times, we may hold options, futures, and swap contracts. These contracts are not designated as hedging instruments.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. These contracts are not designated as hedging instruments and are included in “Other contracts” in the tables below.

Credit-Risk-Related Contingent Features

Certain counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain minimum liquidity of $1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of September 30, 2026, our long-term unsecured debt rating was AAA, and cash investments were in excess of $1.0 billion. As a result, no collateral was required to be posted.

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

(In millions)	September 30, 2026	June 30, 2026
Designated as Hedging Instruments		
Foreign exchange contracts purchased	**$ 1,492**	$ 1,492
Interest rate contracts purchased	**1,193**	1,179
Not Designated as Hedging Instruments		
Foreign exchange contracts purchased	**11,489**	12,052
Foreign exchange contracts sold	**50,507**	51,413
Equity contracts purchased	**5,740**	5,573
Equity contracts sold	**2,546**	2,546
Other contracts purchased	**4,854**	3,252
Other contracts sold	**711**	630

Fair Values of Derivative Instruments

The following table presents our derivative instruments:

(In millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
		September 30, 2026		June 30, 2026
Designated as Hedging Instruments				
Foreign exchange contracts	**$ 48**	**$ (69)**	$ 57	$ (65)
Interest rate contracts	**5**	**0**	11	0
Not Designated as Hedging Instruments				
Foreign exchange contracts	**331**	**(379)**	1,742	(1,175)
Equity contracts	**312**	**(124)**	346	(181)
Other contracts	**14**	**(22)**	20	(9)
Gross amounts of derivatives	**710**	**(594)**	2,176	(1,430)
Gross amounts of derivatives offset in the balance sheets	**(358)**	**360**	(1,300)	1,301
Cash collateral received	**0**	**(143)**	0	(366)
Net amounts of derivatives	**$ 352**	**$ (377)**	$ 876	$ (495)
Reported as				
Short-term investments	**$ 215**	**$ 0**	$ 192	$ 0
Other current assets	**134**	**0**	681	0
Equity and other investments	**0**	**0**	0	0
Other long-term assets	**3**	**0**	3	0
Other current liabilities	**0**	**(245)**	0	(379)
Other long-term liabilities	**0**	**(132)**	0	(116)
Total	**$ 352**	**$ (377)**	$ 876	$ (495)

Gross derivative assets and liabilities subject to legally enforceable master netting agreements for which we have elected to offset were $696 million and $578 million, respectively, as of September 30, 2026, and $2.2 billion and $1.4 billion, respectively, as of June 30, 2026.

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

(In millions)	Level 1	Level 2	Level 3	Total
September 30, 2026				
Derivative assets	**$ 0**	**$ 705**	**$ 5**	**$ 710**
Derivative liabilities	**0**	**(594)**	**0**	**(594)**
June 30, 2026				
Derivative assets	0	2,168	8	2,176
Derivative liabilities	0	(1,430)	0	(1,430)

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

(In millions)		
Three Months Ended September 30,	**2026**	**2025**
Designated as Fair Value Hedging Instruments		
Interest rate contracts		
Derivatives	**$ 1**	$ (1)
Hedged items	**(7)**	(8)
Designated as Cash Flow Hedging Instruments		
Foreign exchange contracts		
Amount reclassified from accumulated other comprehensive loss	**(16)**	(5)
Not Designated as Hedging Instruments		
Foreign exchange contracts	**262**	381
Equity contracts	**5**	1,579
Other contracts	**(47)**	0

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

(In millions)		
Three Months Ended September 30,	**2026**	**2025**
Designated as Cash Flow Hedging Instruments		
Foreign exchange contracts		
Included in effectiveness assessment	**$ (10)**	$ (7)

NOTE 6 — PROPERTY AND EQUIPMENT

The components of property and equipment were as follows:

(In millions)		
	September 30, 2026	**June 30, 2026**
Land	**$ 10,665**	$ 10,546
Buildings and improvements	**194,619**	182,749
Leasehold improvements	**17,647**	16,348
Servers, network equipment, and software	**244,840**	215,874
Furniture and equipment	**6,281**	6,250
Total, at cost	**474,052**	431,767
Accumulated depreciation	**(127,208)**	(118,691)
Total, net	**$ 346,844**	$ 313,076

Depreciation expense was $11.1 billion and $7.1 billion for the three months ended September 30, 2026 and 2025, respectively.

As of September 30, 2026 and June 30, 2026, purchases of property and equipment remaining in accounts payable were $26.5 billion and $26.7 billion, respectively.

NOTE 7 — GOODWILL

Changes in the carrying amount of goodwill were as follows:

(In millions)	June 30, 2026	Acquisitions	Other	September 30, 2026
Agents and Infra	**$ 48,945**	**$ 0**	**$ 9**	**$ 48,954**
Devices and Consumer	**70,706**	**0**	**(14)**	**70,692**
Total	**$ 119,651**	**$ 0**	**$ (5)**	**$ 119,646**

We have recast certain prior period amounts to conform to the way we internally manage and monitor our business. Refer to Note 1 – Accounting Policies for further information.

The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but do not exceed 12 months following the close of the transaction. Adjustments in purchase price allocations may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined.

Any change in the goodwill amounts resulting from foreign currency translations and purchase accounting adjustments are presented as "Other" in the table above. Also included in "Other" are business dispositions and transfers between segments due to reorganizations, as applicable.

During the first quarter of fiscal year 2027 we made changes to our segments. These segment changes also resulted in changes to our reporting units. We reallocated goodwill across impacted reporting units using a relative fair value approach. In addition, we completed an assessment of any potential goodwill impairment for all reporting units immediately prior to the reallocation and determined that no impairment existed.

NOTE 8 — INTANGIBLE ASSETS

The components of intangible assets, all of which are finite-lived, were as follows:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			September 30, 2026			June 30, 2026
Marketing-related	**$ 16,506**	**$ (4,889)**	**$ 11,617**	$ 16,506	$ (4,690)	$ 11,816
Technology-based	**22,870**	**(18,768)**	**4,102**	22,779	(18,136)	4,643
Customer-related	**4,173**	**(2,646)**	**1,527**	4,171	(2,520)	1,651
Contract-based	**663**	**(158)**	**505**	623	(124)	499
Total	**$ 44,212**	**$ (26,461)**	**$ 17,751**	$ 44,079	$ (25,470)	$ 18,609

Intangible assets amortization expense was $1.0 billion and $1.5 billion for the three months ended September 30, 2026 and 2025, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held as of September 30, 2026:

(In millions)	
Year Ending June 30,	
2027 (excluding the three months ended September 30, 2026)	**$ 2,144**
2028	**2,173**
2029	**1,962**
2030	**1,490**
2031	**1,141**
Thereafter	**8,841**
Total	**$ 17,751**

NOTE 9 — DEBT

The components of long-term debt were as follows:

(In millions, issuance by calendar year)	Maturities (calendar year)	Stated Interest Rate	Effective Interest Rate	September 30, 2026	June 30, 2026
2009 issuance of $3.8 billion	**2039**	**5.20%**	**5.24%**	**$ 520**	$ 520
2010 issuance of $4.8 billion	**2040**	**4.50%**	**4.57%**	**486**	486
2011 issuance of $2.3 billion	**2041**	**5.30%**	**5.36%**	**718**	718
2012 issuance of $2.3 billion	**2042**	**3.50%**	**3.57%**	**454**	454
2013 issuance of $5.2 billion	**2043**	**3.75%– 4.88%**	**3.83%–4.92%**	**314**	314
2013 issuance of €4.1 billion	**2028 – 2033**	**2.63%– 3.13%**	**2.69%–3.22%**	**2,612**	2,630
2015 issuance of $23.8 billion	**2035 – 2055**	**3.50%– 4.75%**	**3.60%–4.78%**	**4,555**	4,555
2016 issuance of $19.8 billion	**2036 – 2056**	**3.45%– 3.95%**	**3.51%–4.03%**	**3,930**	7,930
2017 issuance of $17.1 billion	**2027 – 2057**	**3.30%– 4.50%**	**3.38%–5.49%**	**6,746**	6,833
2020 issuance of $10.1 billion	**2030 – 2060**	**1.35%– 2.68%**	**2.53%–5.43%**	**10,111**	10,111
2021 issuance of $8.2 billion	**2052 – 2062**	**2.92%– 3.04%**	**2.92%–3.04%**	**8,185**	8,185
2023 issuance of $0.1 billion	**2027 – 2050**	**1.35%– 4.50%**	**5.16%–5.49%**	**20**	56
2024 issuance of $3.3 billion	**2027 – 2050**	**1.35%– 4.50%**	**5.16%–5.49%**	**2,618**	3,344
Total face value				**41,269**	46,136
Unamortized discount and issuance costs				**(1,064)**	(1,081)
Hedge fair value adjustments [(a)]				**(4)**	(11)
Premium on debt exchange				**(4,720)**	(4,750)
Total debt				**35,481**	40,294
Current portion of long-term debt				**(4,391)**	(9,227)
Long-term debt				**$ 31,090**	$ 31,067

(a)*Refer to Note 5 – Derivatives for further information on the interest rate swaps related to fixed-rate debt.*

As of September 30, 2026 and June 30, 2026, the estimated fair value of long-term debt, including the current portion, was $29.3 billion and $36.5 billion, respectively. The estimated fair values are based on Level 2 inputs.

Debt in the table above is comprised of senior unsecured obligations and ranks equally with our other outstanding obligations. Interest is paid semi-annually, except for the Euro-denominated debt, which is paid annually.

The following table outlines maturities of our long-term debt, including the current portion, as of September 30, 2026:

(In millions)	
Year Ending June 30,	
2027 (excluding the three months ended September 30, 2026)	**$ 4,400**
2028	**0**
2029	**1,988**
2030	**0**
2031	**500**
Thereafter	**34,381**
Total	**$ 41,269**

NOTE 10 — INCOME TAXES

Effective Tax Rate

Our effective tax rate was 20% and 19% for the three months ended September 30, 2026 and 2025, respectively. The increase in our effective tax rate for the current quarter compared to the prior year was primarily due to decreased tax benefits from stock-based compensation and changes in the mix of our earnings and tax expenses between the U.S. and foreign countries.

Our effective tax rate was lower than the U.S. federal statutory rate for the three months ended September 30, 2026, primarily due to earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations center in Ireland.

Uncertain Tax Positions

As of September 30, 2026 and June 30, 2026, unrecognized tax benefits and other income tax liabilities were $30.6 billion and $30.1 billion, respectively, and are included in long-term income taxes in our consolidated balance sheets.

We remain under audit by the IRS for tax years 2014 to 2017. With respect to the audit for tax years 2004 to 2013, on September 26, 2023, we received Notices of Proposed Adjustment ("NOPAs") from the IRS. The primary issues in the NOPAs relate to intercompany transfer pricing. In the NOPAs, the IRS is seeking an additional tax payment of $28.9 billion plus penalties and interest. As of September 30, 2026, we believe our allowances for income tax contingencies are adequate. We disagree with the proposed adjustments and will vigorously contest the NOPAs through the IRS's administrative appeals office and, if necessary, judicial proceedings.

We are subject to income tax in many jurisdictions outside the U.S., some of which are currently under audit by local tax authorities. The resolution of these audits is not expected to be material to our consolidated financial statements. Our operations in Ireland remain subject to examination for tax years 2021 and thereafter.

NOTE 11 — UNEARNED REVENUE

Changes in unearned revenue were as follows:

(In millions) **Three Months Ended September 30, 2026**	
Balance, beginning of period	**$ 75,712**
Deferral of revenue	**44,007**
Recognition of unearned revenue	**(50,156)**
Balance, end of period	**$ 69,563**

Revenue allocated to remaining performance obligations, which includes unearned revenue and amounts expected to be invoiced and recognized as revenue in future periods, was $683 billion as of September 30, 2026. Revenue allocated to remaining performance obligations related to the commercial portion of revenue was $677 billion as of September 30, 2026, with a weighted average duration of approximately 2.3 years. We expect to recognize approximately 30% of both our total company remaining performance obligation revenue and commercial remaining performance obligation revenue over the next 12 months and the remainder thereafter.

NOTE 12 — LEASES

We have operating and finance leases for datacenters and related infrastructure, servers and network equipment, corporate offices, and research and development facilities. Our leases have remaining lease terms of less than 1 year to 20 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

The components of lease expense were as follows:

(In millions) **Three Months Ended September 30,**	**2026**	**2025**
Operating lease cost	**$ 1,894**	$ 1,656
Finance lease cost:		
Amortization of right-of-use assets	**$ 1,702**	$ 1,173
Interest on lease liabilities	**769**	546
Total finance lease cost	**$ 2,471**	$ 1,719

Supplemental cash flow information related to leases was as follows:

(In millions)

Three Months Ended September 30,	2026	2025
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 1,547**	$ 1,656
Operating cash flows from finance leases	**769**	546
Financing cash flows from finance leases	**1,000**	639
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**6,523**	1,417
Finance leases	**5,192**	9,147

Supplemental balance sheet information related to leases was as follows:

(In millions, except lease term and discount rate)

	September 30, 2026	June 30, 2026
Operating Leases		
Operating lease right-of-use assets	**$ 30,178**	$ 24,177
Other current liabilities	**$ 5,758**	$ 5,393
Operating lease liabilities	**21,719**	16,532
Total operating lease liabilities	**$ 27,477**	$ 21,925
Finance Leases		
Property and equipment, at cost	**$ 89,779**	$ 82,712
Accumulated depreciation	**(17,154)**	(15,431)
Property and equipment, net	**$ 72,625**	$ 67,281
Other current liabilities	**$ 5,005**	$ 4,290
Other long-term liabilities	**65,968**	62,304
Total finance lease liabilities	**$ 70,973**	$ 66,594
Weighted Average Remaining Lease Term		
Operating leases	**8 years**	6 years
Finance leases	**13 years**	13 years
Weighted Average Discount Rate		
Operating leases	**4.1%**	3.7%
Finance leases	**4.5%**	4.5%

The following table outlines maturities of our lease liabilities as of September 30, 2026:

(In millions)

Year Ending June 30,	Operating Leases	Finance Leases
2027 (excluding the three months ended September 30, 2026)	**$ 5,088**	**$ 6,006**
2028	**5,191**	**8,163**
2029	**4,010**	**7,433**
2030	**3,472**	**7,323**
2031	**3,081**	**7,300**
Thereafter	**12,170**	**59,021**
Total lease payments	**33,012**	**95,246**
Less imputed interest	**(5,535)**	**(24,273)**
Total	**$ 27,477**	**$ 70,973**

As of September 30, 2026, we had additional leases, primarily for datacenters, that had not yet commenced of $364.6 billion, with some arrangements subject to certain contractual conditions being met. These leases will commence between fiscal year 2027 and fiscal year 2034 with lease terms of 1 year to 20 years.

NOTE 13 — CONTINGENCIES

Irish Data Protection Commission Matter

In 2018, the Irish Data Protection Commission ("IDPC") began investigating a complaint against LinkedIn as to whether LinkedIn's targeted advertising practices violated the recently implemented European Union General Data Protection Regulation ("GDPR"). Microsoft cooperated throughout the period of inquiry. In October 2024, the IDPC provided LinkedIn with a final decision alleging GDPR violations and assessing a fine. In November 2024, LinkedIn appealed the final decision. A preliminary hearing was held in December 2025. The court issued a ruling on the standard of review, which the IDPC has appealed.

Other Contingencies

We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact in our consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

As of September 30, 2026, we accrued aggregate legal liabilities of $582 million. While we intend to defend these matters vigorously, adverse outcomes that we estimate could reach approximately $400 million in aggregate beyond recorded amounts are reasonably possible. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact in our consolidated financial statements for the period in which the effects become reasonably estimable.

NOTE 14 — STOCKHOLDERS' EQUITY

Share Repurchases

On September 16, 2024, our Board of Directors approved a share repurchase program authorizing up to $60.0 billion in share repurchases. This share repurchase program commenced in April 2025, has no expiration date, and may be terminated at any time. As of September 30, 2026, $37.7 billion remained of this $60.0 billion share repurchase program.

We repurchased the following shares of common stock under the share repurchase program:

(In millions)	Shares	Amount	Shares	Amount
Fiscal Year		2027		2026
First Quarter	**6**	**$ 2,925**	8	$ 3,955

All share repurchases were made using cash resources. All shares repurchased were under the share repurchase program approved on September 16, 2024. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards of $1.5 billion and $1.7 billion for the three months ended September 30, 2026 and 2025, respectively.

Dividends

Our Board of Directors declared the following dividends:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
Fiscal Year 2027				(In millions)
September 15, 2026	**November 19, 2026**	**December 10, 2026**	**$ 0.98**	**$ 7,279**
Fiscal Year 2026				
September 15, 2025	November 20, 2025	December 11, 2025	$ 0.91	$ 6,762

The dividend declared on September 15, 2026 was included in other current liabilities as of September 30, 2026.

NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component:

(In millions)		
Three Months Ended September 30,	**2026**	**2025**
Derivatives		
Balance, beginning of period	**$ 0**	$ (8)
Unrealized losses, net of tax of **$(3)** and $(2)	**(10)**	(7)
Reclassification adjustments for losses included in other income (expense), net	**16**	5
Tax benefit included in provision for income taxes	**(3)**	(1)
Amounts reclassified from accumulated other comprehensive loss	**13**	4
Net change related to derivatives, net of tax of **$0** and $(1)	**3**	(3)
Balance, end of period	**$ 3**	$ (11)
Investments		
Balance, beginning of period	**$ (836)**	$ (1,051)
Unrealized gains (losses), net of tax of **$(157)** and $185	**(591)**	695
Reclassification adjustments for (gains) losses included in other income (expense), net	**41**	(10)
Tax expense (benefit) included in provision for income taxes	**(9)**	2
Amounts reclassified from accumulated other comprehensive loss	**32**	(8)
Net change related to investments, net of tax of **$(148)** and $183	**(559)**	687
Balance, end of period	**$ (1,395)**	$ (364)
Translation Adjustments and Other		
Balance, beginning of period	**$ (2,448)**	$ (2,288)
Translation adjustments and other, net of tax of **$0** and $0	**(17)**	(98)
Balance, end of period	**$ (2,465)**	$ (2,386)
Accumulated other comprehensive loss, end of period	**$ (3,857)**	$ (2,761)

NOTE 16 — SEGMENT INFORMATION AND GEOGRAPHIC DATA

In September 2026, we announced changes in our segment reporting structure. We have recast certain prior period amounts to conform to the way we internally manage and monitor our business. Refer to Note 1 – Accounting Policies for further information.

In its operation of the business, management, including our CODM, who is also our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements. The primary profitability measure used by the CODM to review segment operating results is operating income. The CODM uses operating income to allocate resources during our annual planning process and throughout the year, as well as to assess the performance of our segments, primarily by monitoring actual results compared to prior periods and expected results. During the periods presented, we reported our financial performance based on the following two segments: Agents and Infra, and Devices and Consumer.

Our reportable segments are described below.

Agents and Infra

Our Agents and Infra segment brings together our applications and agents, our multi-model system, and Azure infrastructure. This segment primarily comprises:

- Azure, comprising consumption-based services across non-GPU workloads, including compute, data and analytics, storage, networking, and security; and GPU workloads, including GPU infrastructure-as-a-service and Foundry.
- Microsoft 365 cloud, including Microsoft 365 commercial cloud, comprising Microsoft 365 commercial subscriptions and services, GitHub cloud and other cloud-based developer services, Microsoft 365 Copilot, GitHub Copilot, and security offerings including Agent 365 and Security Copilot; and Microsoft 365 consumer cloud.
- Productivity and server licensing, including Server products, comprising SQL Server, Windows Server, Visual Studio, System Center, related Client Access Licenses, and other on-premises offerings; Microsoft 365 commercial products, comprising Windows commercial on-premises and Office licensed on-premises; and Microsoft 365 consumer products, comprising Office licensed on-premises.
- Industry solutions, including Industry solutions cloud, comprising LinkedIn Talent Solutions and Sales Solutions, Dynamics 365 (including a set of intelligent, cloud-based applications across ERP, CRM, Service, Power Apps, and Power Automate), and Healthcare and Life Sciences cloud; and Industry solutions products, comprising the on-premises portion of these businesses.
- Frontier and support services, including Customer Success Support (formerly Enterprise Support Services), Frontier Company, Microsoft Partner Network, and Learning Experience.

Devices and Consumer

Our Devices and Consumer segment consists of products and services that put customers at the center of the experience with our technology. This segment primarily comprises:

- Search and advertising, including Bing, Microsoft Edge, LinkedIn Marketing Solutions and Premium Subscriptions, third-party affiliates, and MSN.
- XBOX, including XBOX content and services, comprising first- and third-party content (including games and in-game content), XBOX Game Pass and other subscriptions, XBOX Cloud Gaming, advertising, and other cloud services; and XBOX hardware.
- Windows OEM and devices, comprising Windows Pro and non-Pro licenses sold through the OEM channel, first-party devices (including Surface and PC accessories), and related Windows offerings beyond OEM licensing.

Revenue and costs are generally directly attributed to our segments. However, due to the integrated structure of our business, certain revenue recognized and costs incurred by one segment may benefit other segments. Revenue from certain contracts is allocated among the segments based on the relative value of the underlying products and services, which can include allocation based on actual prices charged, prices when sold separately, or estimated costs plus a profit margin. Cost of revenue is allocated in certain cases based on a relative revenue methodology. Operating expenses that are allocated primarily include those relating to our investments in AI infrastructure and training, as well as marketing of products and services, from which multiple segments benefit and are generally allocated based on relative gross margin.

In addition, certain costs are incurred at a corporate level and allocated to our segments. These allocated costs generally include legal, including settlements and fines, information technology, human resources, finance, excise taxes, field selling, shared facilities services, customer service and support, and severance incurred as part of a corporate program. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated and is generally based on relative gross margin or relative headcount.

Segment revenue, cost of revenue, operating expenses, and operating income were as follows during the periods presented:

(In millions)

Three Months Ended September 30,	2026	2025
Agents and Infra		
Revenue	**$ 76,795**	$ 61,672
Cost of revenue	**23,887**	17,701
Operating expenses	**12,350**	11,253
Operating income	**$ 40,558**	$ 32,718
Devices and Consumer		
Revenue	**$ 15,484**	$ 16,001
Cost of revenue	**5,833**	6,342
Operating expenses	**4,294**	4,416
Operating income	**$ 5,357**	$ 5,243
Total		
Revenue	**$ 92,279**	$ 77,673
Cost of revenue	**29,720**	24,043
Operating expenses	**16,644**	15,669
Operating income	**$ 45,915**	$ 37,961

No sales to an individual country other than the United States accounted for more than 10% of revenue for the three months ended September 30, 2026 or 2025. Revenue, classified by the major geographic areas in which our customers were located, was as follows:

(In millions)

Three Months Ended September 30,	2026	2025
United States [(a)]	**$ 49,459**	$ 40,077
Other countries	**42,820**	37,596
Total	**$ 92,279**	$ 77,673

(a)*Includes billings to OEMs and certain multinational organizations because of the nature of these businesses and the impracticability of determining the geographic source of the revenue.*

Revenue, classified by significant product and service offerings, was as follows:

(In millions)

Three Months Ended September 30,	2026	2025
Azure	**$ 33,165**	$ 22,384
Microsoft 365 cloud	**27,778**	23,694
Productivity and server licensing	**8,407**	8,678
Search and advertising	**6,554**	5,942
XBOX	**5,379**	5,508
Industry solutions	**5,337**	4,894
Windows OEM and devices	**3,551**	4,551
Frontier and support services	**2,108**	2,022
Total	**$ 92,279**	$ 77,673

Our Microsoft Cloud revenue, which includes Azure, Microsoft 365 commercial cloud, and Industry solutions cloud, was $63.9 billion and $49.1 billion for the three months ended September 30, 2026 and 2025, respectively.

Assets are not allocated to segments for internal reporting presentations. A portion of amortization and depreciation is included with various other costs in an overhead allocation to each segment. It is impracticable for us to separately identify the amount of amortization and depreciation by segment that is included in the measure of segment profit or loss.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Microsoft Corporation

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Microsoft Corporation and subsidiaries (the "Company") as of September 30, 2026, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for the three-month periods ended September 30, 2026 and 2025, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of June 30, 2026, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for the year then ended (not presented herein); and in our report dated July 29, 2026, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2026, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington
October 28, 2026

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note About Forward-Looking Statements

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" (Part II, Item 1A of this Form 10-Q). These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "could," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" (Part I, Item 3 of this Form 10-Q), and "Risk Factors". We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Microsoft Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Annual Report on Form 10-K for the year ended June 30, 2026, and our consolidated financial statements and the accompanying Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

OVERVIEW

Microsoft is a technology company committed to making digital technology and artificial intelligence ("AI") available broadly and doing so responsibly, with a mission to empower every person and every organization on the planet to achieve more. We create platforms and applications, powered by AI, that deliver innovative solutions that meet the evolving needs of our customers.

We generate revenue by offering a wide range of cloud-based solutions, content, and other services to people and businesses; licensing and supporting an array of software products; delivering relevant online advertising to a global audience; and designing and selling devices. Our most significant expenses are related to compensating employees; supporting and investing in our cloud-based services, including datacenter operations; designing, manufacturing, marketing, and selling our other products and services; and income taxes.

Highlights from the first quarter of fiscal year 2027 compared with the first quarter of fiscal year 2026 included:

- Commercial remaining performance obligation increased 73% to $677 billion.
- Microsoft Cloud revenue increased 30% to $63.9 billion.
- Azure revenue increased 48%.
- Microsoft 365 commercial cloud revenue increased 17%.
- Microsoft 365 consumer cloud revenue increased 17%.
- Industry solutions cloud revenue increased 10%.
- Search and advertising revenue excluding traffic acquisition costs increased 12%.
- XBOX content and services revenue decreased 2%.
- Windows OEM and devices revenue decreased 22%.

Industry Trends and Opportunities

Our industry is dynamic and highly competitive, with frequent changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies, or new ideas that can further transform the industry and our business. At Microsoft, we push the boundaries of what is possible through a broad range of research and development activities that seek to identify and address the changing demands of customers and users, industry trends, and competitive forces.

We have a long-term strategic partnership with OpenAI which was originally established in 2019. We continue to build on our shared vision to advance AI responsibly and make its benefits broadly accessible. Microsoft is a major investor in OpenAI and will continue to receive revenue-sharing payments. We hold rights to OpenAI's intellectual property, including models and infrastructure, for integration into our products.

Economic Conditions, Challenges, and Risks

The markets for software, devices, and cloud-based services are dynamic and highly competitive. Our competitors are developing new software and devices, while also deploying competing cloud-based services for consumers and businesses. The devices and form factors customers prefer evolve rapidly, influencing how users access services in the cloud and, in some cases, the user's choice of which suite of cloud-based services to use. Aggregate demand for our software, services, and devices is also correlated to global macroeconomic and geopolitical factors, which remain dynamic. We must continue to evolve and adapt over an extended time in pace with this changing environment.

The investments we are making in cloud and datacenter infrastructure and devices will continue to increase our operating costs and may decrease our operating margins. We continue to identify and evaluate opportunities to expand our datacenter locations and increase our server capacity to meet the evolving needs of our customers, particularly given the growing demand for AI services. Our datacenters depend on the availability of permitted and buildable land, predictable energy, networking supplies, and servers, including graphics processing units and other components. Our devices are primarily manufactured by third-party contract manufacturers. For the majority of our products, we have the ability to use other manufacturers if a current vendor becomes unavailable or unable to meet our requirements. However, some of our products contain certain components for which there are very few qualified suppliers. Extended or unforeseen disruptions, or limited availability of components from these suppliers could impact our ability to operate our datacenters and manufacture devices on time to meet consumer demand.

Our success is highly dependent on our ability to attract and retain qualified employees. We hire a mix of university and industry talent worldwide. We compete for talented individuals globally by offering an exceptional working environment, broad customer reach, scale in resources, the ability to grow one's career across many different products and businesses, and competitive compensation and benefits.

Our international operations provide a significant portion of our total revenue and expenses. Many of these revenue and expenses are denominated in currencies other than the U.S. dollar. As a result, changes in foreign exchange rates may significantly affect revenue and expenses. Fluctuations in the U.S. dollar relative to certain foreign currencies did not have a material impact on reported revenue and expenses from our international operations in the first quarter of fiscal year 2027.

Further, global, regional, and local economic developments and changes in global trade policies such as restrictions on international trade, including tariffs and other controls on imports or exports, could result in increased supply chain challenges, cost volatility, and consumer and economic uncertainty which may adversely affect our results of operations.

Refer to Risk Factors (Part II, Item 1A of this Form 10-Q) for a discussion of these factors and other risks.

Seasonality

Our revenue fluctuates quarterly and is generally higher in the fourth quarter of our fiscal year. Fourth quarter revenue is driven by a higher volume of multi-year contracts executed during the period.

Reportable Segments

We report our financial performance based on the following two segments: Agents and Infra, and Devices and Consumer. The segment amounts included in MD&A are presented on a basis consistent with our internal management reporting.

In September 2026, we announced changes in our segment reporting structure. These changes align our segments with how we currently manage our business, creating the Agents and Infra segment that brings together our applications and agents, our multi-model system, and Azure infrastructure, and the Devices and Consumer segment that comprises our key consumer offerings. Beginning in fiscal year 2027, the information that our chief operating decision maker is regularly provided and reviews for purposes of allocating resources and assessing performance reflects these segment changes. Prior period segment information has been recast to conform to the way we internally manage and monitor our business during fiscal year 2027.

Additional information on our reportable segments is contained in Note 16 – Segment Information and Geographic Data of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

Metrics

We use metrics in assessing the performance of our business and to make informed decisions regarding the allocation of resources. We disclose metrics to enable investors to evaluate progress against our ambitions, provide transparency into performance trends, and reflect the continued evolution of our products and services. Financial metrics are calculated based on financial results prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and growth comparisons relate to the corresponding period of last fiscal year.

In the first quarter of fiscal year 2027, we made updates to our metrics in connection with the segment changes described above. These changes align our metrics with how we manage and monitor certain businesses. The changes include updating the Azure, Microsoft 365 commercial cloud, and the Search and advertising revenue growth metrics for the movement of certain components, as well as the creation of the Industry solutions cloud revenue growth metric, which combines revenue from Dynamics 365 together with revenue from LinkedIn Talent Solutions, LinkedIn Sales Solutions, and Healthcare and Life Sciences cloud. Other changes include updating the Microsoft 365 commercial seat growth metric to include paid GitHub seats.

Agents and Infra

Metrics related to our Agents and Infra segment assess the performance of our core businesses within this segment. The metrics primarily reflect growth across our commercial and cloud services.

Commercial remaining performance obligation	Commercial portion of revenue (comprising Azure, Microsoft 365 commercial cloud, Server products, Microsoft 365 commercial products, Industry solutions, and Frontier and support services) allocated to remaining performance obligations, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods
Microsoft Cloud revenue and revenue growth	Revenue from Azure, Microsoft 365 commercial cloud, and Industry solutions cloud
Microsoft Cloud gross margin percentage	Gross margin percentage for our Microsoft Cloud business
Azure revenue growth	Revenue from Azure, comprising consumption-based services across non-GPU workloads, including compute, data and analytics, storage, networking, and security; and GPU workloads, including GPU infrastructure-as-a-service and Foundry
Microsoft 365 commercial cloud revenue growth	Revenue from Microsoft 365 commercial subscriptions and services, GitHub cloud and other cloud-based developer services, Microsoft 365 Copilot, GitHub Copilot, and security offerings including Agent 365 and Security Copilot
Microsoft 365 commercial seat growth	The number of Microsoft 365 commercial seats and GitHub cloud seats at end of period where seats are paid users covered by a Microsoft 365 commercial subscription or GitHub subscription
Microsoft 365 consumer cloud revenue growth	Revenue from Microsoft 365 consumer subscriptions and other consumer services
Industry solutions cloud revenue growth	Revenue from LinkedIn Talent Solutions and Sales Solutions, Dynamics 365 (including a set of intelligent, cloud-based applications across ERP, CRM, Service, Power Apps, and Power Automate), and Healthcare and Life Sciences cloud

Devices and Consumer

Metrics related to our Devices and Consumer segment assess the performance of our key consumer businesses.

Search and advertising revenue (ex TAC) growth	Revenue from search advertising excluding traffic acquisition costs ("TAC") paid to Bing Ads network publishers and content partners, as well as revenue from LinkedIn Marketing Solutions (ex TAC) and Premium Subscriptions
XBOX content and services revenue growth	Revenue from XBOX content and services, comprising first- and third-party content (including games and in-game content), XBOX Game Pass and other subscriptions, XBOX Cloud Gaming, advertising, and other cloud services
Windows OEM and devices revenue growth	Revenue from sales of Windows Pro and non-Pro licenses sold through the OEM channel, first-party devices (including Surface and PC accessories), and related Windows offerings beyond OEM licensing

SUMMARY RESULTS OF OPERATIONS

(In millions, except percentages and per share amounts)	Three Months Ended September 30,		Percentage Change
	2026	2025	
Revenue	**$ 92,279**	$ 77,673	19%
Gross margin	**62,559**	53,630	17%
Operating income	**45,915**	37,961	21%
Net income	**36,629**	27,747	32%
Diluted earnings per share	**4.92**	3.72	32%
Adjusted net income (non-GAAP)	**36,422**	30,833	18%
Adjusted diluted earnings per share (non-GAAP)	**4.89**	4.13	18%

Adjusted net income and adjusted diluted earnings per share ("EPS") are non-GAAP financial measures. These non-GAAP financial measures exclude net gains and losses from investments in OpenAI. Refer to the Non-GAAP Financial Measures section below for a reconciliation of our financial results reported in accordance with GAAP to non-GAAP financial results.

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

Revenue increased $14.6 billion or 19% driven by growth in Agents and Infra. Agents and Infra revenue increased driven by Azure. Devices and Consumer revenue decreased driven by Windows OEM and devices, offset in part by growth in Search and advertising.

Cost of revenue increased $5.7 billion or 24% driven by growth in Agents and Infra.

Gross margin increased $8.9 billion or 17%.

- Microsoft Cloud gross margin percentage decreased to 66% driven by sales mix shift to Azure, offset in part by product-level margin improvements, primarily in Azure.

Operating expenses increased $975 million or 6% driven by continued investments in research and development compute capacity and talent. Total company headcount decreased 2%.

Operating income increased $8.0 billion or 21% driven by growth in Agents and Infra. Operating income percentage increased slightly driven by strong revenue growth, platform efficiency gains, and focused investments across our portfolio, offset in part by sales mix shift to Azure.

Current year net income and diluted EPS were positively impacted by net gains from investments in OpenAI, which resulted in an increase in net income and diluted EPS of $207 million and $0.03, respectively. Prior year net income and diluted EPS were negatively impacted by net losses from investments in OpenAI, which resulted in a decrease in net income and diluted EPS of $3.1 billion and $0.41, respectively.

SEGMENT RESULTS OF OPERATIONS

(In millions, except percentages)	Three Months Ended September 30, 2026	2025	Percentage Change
Agents and Infra			
Revenue	**$ 76,795**	$ 61,672	25%
Cost of revenue	**23,887**	17,701	35%
Operating expenses	**12,350**	11,253	10%
Operating income	**$ 40,558**	$ 32,718	24%
Devices and Consumer			
Revenue	**$ 15,484**	$ 16,001	(3%)
Cost of revenue	**5,833**	6,342	(8%)
Operating expenses	**4,294**	4,416	(3%)
Operating income	**$ 5,357**	$ 5,243	2%
Total			
Revenue	**$ 92,279**	$ 77,673	19%
Cost of revenue	**29,720**	24,043	24%
Operating expenses	**16,644**	15,669	6%
Operating income	**$ 45,915**	$ 37,961	21%

Reportable Segments

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

Agents and Infra

Revenue increased $15.1 billion or 25%.

- Azure revenue increased $10.8 billion or 48% driven by demand for services across the platform with continued growth across all workloads.
- Microsoft 365 cloud revenue increased $4.1 billion or 17% driven by Microsoft 365 commercial cloud. Microsoft 365 commercial cloud revenue increased 17% driven by higher revenue per user, reflecting continued upsell to premium seat offerings, including Microsoft 365 Copilot, E5, and E7, as well as increased consumption of usage-based services, primarily in GitHub Copilot. Microsoft 365 commercial seats grew 5% driven by installed base expansion across all customer segments, primarily small and medium business and frontline worker offerings. Microsoft 365 consumer cloud revenue increased 17% driven by growth in revenue per user and Microsoft 365 consumer subscriber growth of 7%.
- Productivity and server licensing revenue decreased $271 million or 3% driven by a decrease in transactional purchasing as we lap the benefit from product launches in the prior year, offset in part by a greater mix of contracts that carry higher in-period revenue recognition.
- Industry solutions revenue increased $443 million or 9% driven by growth in Industry solutions cloud. Industry solutions cloud revenue increased 10% with growth in Dynamics 365 and LinkedIn Talent Solutions.
- Frontier and support services revenue increased $86 million or 4% driven by growth in Customer Success Support (formerly Enterprise Support Services).

Operating income increased $7.8 billion or 24%. Operating income percentage decreased slightly as strong revenue growth, platform efficiency gains, and focused investments across our portfolio were more than offset by sales mix shift to Azure.

- Cost of revenue increased $6.2 billion or 35% driven by investments in datacenter infrastructure to support growing customer demand across Azure and Microsoft 365 cloud.
- Gross margin increased $8.9 billion or 20%.

•Operating expenses increased $1.1 billion or 10% driven by continued investments in research and development compute capacity and talent.

Devices and Consumer

Revenue decreased $517 million or 3%.

•Search and advertising revenue increased $612 million or 10%. Search and advertising revenue excluding traffic acquisition costs increased 12% driven by higher rate and volume across LinkedIn, Edge, and Bing.

•XBOX revenue decreased $129 million or 2% driven by declines in XBOX content and services and XBOX hardware. XBOX content and services revenue decreased 2% driven by declines in third-party content and XBOX Game Pass, offset in part by growth in first-party content. XBOX hardware revenue declined 14% driven by lower volume of consoles sold.

•Windows OEM and devices revenue decreased $1.0 billion or 22% driven by the benefit from Windows 10 end of support demand in the prior-year, inventory drawdowns by OEM and channel partners, as well as weaker PC market demand.

Operating income increased $114 million or 2%. Operating income percentage increased driven by lower amortization of intangible assets from the Activision Blizzard acquisition, offset in part by the impact from a lower mix of Windows OEM revenue.

•Cost of revenue decreased $509 million or 8% driven by lower amortization of intangible assets from the Activision Blizzard acquisition.

•Gross margin was relatively unchanged.

•Operating expenses decreased $122 million or 3% driven by XBOX, offset in part by continued investments in research and development compute capacity and talent.

OPERATING EXPENSES

Research and Development

(In millions, except percentages)	Three Months Ended September 30,		Percentage Change
	2026	2025	
Research and development	**$ 9,047**	$ 8,146	11%
As a percent of revenue	**10%**	10%	0ppt

Research and development expenses include payroll, stock-based compensation expense, employee benefits, and other headcount-related expenses associated with product development. Research and development expenses also include technology development costs, including AI training and other infrastructure costs, third-party development and programming costs, and the depreciation and amortization of assets used to conduct research and development.

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

Research and development expenses increased $901 million or 11% driven by continued investments in compute capacity and talent.

Sales and Marketing

(In millions, except percentages)	Three Months Ended September 30,		Percentage Change
	2026	2025	
Sales and marketing	**$ 5,716**	$ 5,717	0%
As a percent of revenue	**6%**	7%	(1)ppt

Sales and marketing expenses include payroll, stock-based compensation expense, employee benefits, and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, trade shows, seminars, and other programs.

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

Sales and marketing expenses were relatively unchanged.

General and Administrative

(In millions, except percentages)	Three Months Ended September 30,		Percentage Change
	2026	2025	
General and administrative	**$ 1,881**	$ 1,806	4%
As a percent of revenue	**2%**	2%	0ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

General and administrative expenses increased $75 million or 4%.

OTHER INCOME (EXPENSE), NET

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

(In millions) Three Months Ended September 30,	2026	2025
Interest and dividends income	**$ 744**	$ 976
Interest expense	**(870)**	(698)
Net recognized losses on investments	**(46)**	(572)
Net gains (losses) on derivatives	**(42)**	1,579
Net losses on foreign currency remeasurements	**(30)**	(22)
Other, net	**282**	(4,923)
Total	**$ 38**	$ (3,660)

We use derivative instruments to manage risks related to foreign currencies, interest rates, equity prices, and credit; to enhance investment returns; and to facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedging instruments are primarily recognized in other income (expense), net.

Other income (expense), net included $272 million of net gains and $4.1 billion of net losses for the three months ended September 30, 2026 and 2025, respectively, from investments in OpenAI.

Three Months Ended September 30, 2026 Compared with Three Months Ended September 30, 2025

Interest and dividends income decreased primarily due to lower portfolio balances. Interest expense increased primarily due to higher finance lease interest expense, offset in part by maturities of long-term debt. Net recognized losses on investments decreased primarily due to gains on equity securities in the current period as compared to losses in the prior period. Net losses on derivatives increased primarily due to lower gains on equity derivatives in the current period as compared to the prior period. Other, net primarily reflects net recognized gains (losses) on equity method investments, including OpenAI.

INCOME TAXES

Effective Tax Rate

Our effective tax rate was 20% and 19% for the three months ended September 30, 2026 and 2025, respectively. The increase in our effective tax rate for the current quarter compared to the prior year was primarily due to decreased tax benefits from stock-based compensation and changes in the mix of our earnings and tax expenses between the U.S. and foreign countries.

Our effective tax rate was lower than the U.S. federal statutory rate for the three months ended September 30, 2026, primarily due to earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations center in Ireland.

Uncertain Tax Positions

We remain under audit by the IRS for tax years 2014 to 2017. With respect to the audit for tax years 2004 to 2013, on September 26, 2023, we received Notices of Proposed Adjustment ("NOPAs") from the IRS. The primary issues in the NOPAs relate to intercompany transfer pricing. In the NOPAs, the IRS is seeking an additional tax payment of $28.9 billion plus penalties and interest. As of September 30, 2026, we believe our allowances for income tax contingencies are adequate. We disagree with the proposed adjustments and will vigorously contest the NOPAs through the IRS's administrative appeals office and, if necessary, judicial proceedings.

We are subject to income tax in many jurisdictions outside the U.S., some of which are currently under audit by local tax authorities. The resolution of these audits is not expected to be material to our consolidated financial statements. Our operations in Ireland remain subject to examination for tax years 2021 and thereafter.

NON-GAAP FINANCIAL MEASURES

Adjusted other income (expense), net, adjusted net income, and adjusted diluted EPS are non-GAAP financial measures which exclude net (gains) losses from investments in OpenAI. We believe these non-GAAP measures aid investors by providing additional insight into our financial performance and help clarify trends affecting our business. For comparability of reporting, management considers non-GAAP measures in conjunction with GAAP financial results in evaluating business performance. These non-GAAP financial measures presented should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

The following table reconciles our financial results reported in accordance with GAAP to non-GAAP financial results:

(In millions, except percentages and per share amounts)	Three Months Ended September 30,		Percentage Change
	2026	2025	
Other income (expense), net	**$ 38**	$ (3,660)	101%
Net (gains) losses from investments in OpenAI	**(272)**	4,061	(107)%
Adjusted other income (expense), net (non-GAAP)	**$ (234)**	$ 401	(158)%
Net income	**$ 36,629**	$ 27,747	32%
Net (gains) losses from investments in OpenAI, net of tax of $65 and $(975)	**(207)**	3,086	(107)%
Adjusted net income (non-GAAP)	**$ 36,422**	$ 30,833	18%
Diluted earnings per share	**$ 4.92**	$ 3.72	32%
Net (gains) losses from investments in OpenAI	**(0.03)**	0.41	(107)%
Adjusted diluted earnings per share (non-GAAP)	**$ 4.89**	$ 4.13	18%

LIQUIDITY AND CAPITAL RESOURCES

We expect existing cash, cash equivalents, short-term investments, cash flows from operations, and access to capital markets to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as dividends, share repurchases, debt maturities, and material capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and short-term investments totaled $64.5 billion and $76.8 billion as of September 30, 2026 and June 30, 2026, respectively. Equity and other investments were $37.8 billion and $36.3 billion as of September 30, 2026 and June 30, 2026, respectively. Our short-term investments are primarily intended to facilitate liquidity and capital preservation. They consist predominantly of highly liquid investment-grade fixed-income securities, diversified among industries and individual issuers. The investments are predominantly U.S. dollar-denominated securities, but also include foreign currency-denominated securities to diversify risk. Our fixed-income investments are exposed to interest rate risk and credit risk. The credit risk and average maturity of our fixed-income portfolio are managed to achieve economic returns that correlate to certain fixed-income indices. The settlement risk related to these investments is insignificant given that the short-term investments held are primarily highly liquid investment-grade fixed-income securities.

Valuation

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine the fair value of our financial instruments. This pricing methodology applies to our Level 1 investments, such as U.S. government securities, common and preferred stock, and mutual funds. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. This pricing methodology applies to our Level 2 investments, such as commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Level 3 investments are valued using internally-developed models with unobservable inputs. Assets and liabilities measured at fair value on a recurring basis using unobservable inputs are an immaterial portion of our portfolio.

A majority of our investments are priced by pricing vendors and are generally Level 1 or Level 2 investments as these vendors either provide a quoted market price in an active market or use observable inputs for their pricing without applying significant adjustments. Broker pricing is used mainly when a quoted price is not available, the investment is not priced by our pricing vendors, or when a broker price is more reflective of fair values in the market in which the investment trades. Our broker-priced investments are generally classified as Level 2 investments because the broker prices these investments based on similar assets without applying significant adjustments. In addition, all our broker-priced investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments. Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include model validation, review of key model inputs, analysis of period-over-period fluctuations, and independent recalculation of prices where appropriate.

Cash Flows

Cash from operations increased $12.9 billion to $58.0 billion for the three months ended September 30, 2026, primarily due to an increase in cash received from customers and a decrease in cash used to pay income taxes, offset in part by an increase in cash paid to suppliers. Cash used in financing increased $4.8 billion to $16.6 billion for the three months ended September 30, 2026, primarily due to a $4.9 billion increase in cash used for repayments of debt. Cash used in investing increased $7.4 billion to $42.0 billion for the three months ended September 30, 2026, primarily due to a $20.0 billion increase in additions to property and equipment and a $6.7 billion increase in cash used in other investing primarily to facilitate the purchase of components, offset in part by a $19.1 billion increase in cash from net investment purchases, sales, and maturities.

Debt Proceeds

We issue debt to take advantage of favorable pricing and liquidity in the debt markets, reflecting our credit rating. The proceeds of these issuances were or will be used for general corporate purposes, which may include, among other things, funding for working capital, capital expenditures, repurchases of capital stock, acquisitions, and repayment of existing debt. Refer to Note 9 – Debt of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

Unearned Revenue

Unearned revenue comprises mainly unearned revenue related to volume licensing programs, which may include cloud services and Software Assurance ("SA"). Unearned revenue is generally invoiced annually at the beginning of each contract period for multi-year agreements and recognized ratably over the coverage period. Unearned revenue also includes payments for other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service.

The following table outlines the expected future recognition of unearned revenue as of September 30, 2026:

(In millions) Three Months Ending		
December 31, 2026	$	**30,299**
March 31, 2027		**22,202**
June 30, 2027		**12,098**
September 30, 2027		**2,267**
Thereafter		**2,697**
Total	$	**69,563**

If our customers choose to license cloud-based versions of our products and services rather than licensing transaction-based products and services, the associated revenue will shift from being recognized at the time of the transaction to being recognized over the subscription period or upon consumption, as applicable. Refer to Note 11 – Unearned Revenue of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

Material Cash Requirements and Other Obligations

Share Repurchases

For the three months ended September 30, 2026 and 2025, we repurchased 6 million shares and 8 million shares of our common stock for $2.9 billion and $4.0 billion, respectively, through our share repurchase program. All repurchases were made using cash resources. As of September 30, 2026, $37.7 billion remained of our $60 billion share repurchase program. Refer to Note 14 – Stockholders' Equity of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

Dividends

For the three months ended September 30, 2026 and 2025, our Board of Directors declared dividends totaling $7.3 billion and $6.8 billion, respectively. We intend to continue returning capital to shareholders in the form of dividends, subject to declaration by our Board of Directors. Refer to Note 14 – Stockholders' Equity of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

Other Planned Uses of Capital

We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology, as well as acquisitions that align with our business strategy. Additions to property and equipment will continue, including new facilities, datacenters, and computer systems for research and development, sales and marketing, support, and administrative staff. We will continue to invest in capital expenditures to support growth in our cloud offerings and our investments in AI training and other infrastructure. We have operating and finance leases for datacenters and related infrastructure, servers and network equipment, corporate offices, and research and development facilities. We have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of capital resources.

RECENT ACCOUNTING GUIDANCE

Refer to Note 1 – Accounting Policies of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q).

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Critical accounting estimates are those estimates that involve a significant level of estimation uncertainty and could have a material impact on our financial condition or results of operations. We have critical accounting estimates in the areas of revenue recognition, measurement and impairment of investment securities, goodwill, research and development costs, legal and other contingencies, and income taxes.

Revenue Recognition

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. When a cloud-based service includes both on-premises software licenses and cloud services, judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud service and recognized over time. Certain cloud services, primarily Office 365, depend on a significant level of integration, interdependency, and interrelation between the desktop applications and cloud services, and are accounted for together as one performance obligation. Revenue from Office 365 is recognized ratably over the period in which the cloud services are provided.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. We use a single amount to estimate SSP for items that are not sold separately, including on-premises licenses sold with SA or software updates provided at no additional charge. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount to be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

Due to the various benefits from and the nature of our SA program, judgment is required to assess the pattern of delivery, including the exercise pattern of certain benefits across our portfolio of customers.

Our products are generally sold with a right of return, we may provide other credits or incentives, and in certain instances we estimate customer usage of our products and services, which are accounted for as variable consideration when determining the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period if additional information becomes available. Changes to our estimated variable consideration were not material for the periods presented.

Remaining performance obligations represent the revenue we expect to recognize for our products and services for which control has not yet been transferred to customers. We estimate total consideration to be received at the outset of the agreement and throughout the term of the agreement. Estimating the total consideration and revenue that will be allocated to remaining performance obligation can involve significant judgments, including identifying and assessing variable consideration and potential renegotiation of commitments. We consider factors such as the nature of the terms and duration of the contract across our portfolio of contracts.

Measurement and Impairment of Investment Securities

Investments purchased by Microsoft are typically accounted for as available-for-sale debt securities, equity investments with readily determinable fair values, or equity investments without readily determinable fair values measured using either the equity method when required or at cost less impairments, if any, with adjustments for observable changes in price (referred to as the measurement alternative). Equity method investments may be recorded on a lag of up to three months when sufficient financial information is not available in a timely manner. For equity method investments recorded on a lag, we recognize the impact of intervening events that have a material impact on our consolidated financial statements in the period in which they occurred.

We review debt investments quarterly for credit losses and impairment. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the extent to which the fair value is less than cost. This determination requires significant judgment. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. In addition, we consider specific adverse conditions related to the financial health of, and business outlook for, the investee. If we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery, then a decline in fair value below cost is recorded as an impairment charge in other income (expense), net and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

For equity investments accounted for under the measurement alternative, we evaluate whether observable changes in price have occurred in orderly transactions for identical or similar investments of the same issuer. This determination requires judgment in evaluating whether transactions are orderly and whether the securities are comparable, including consideration of the rights and preferences of the securities, investor composition, and other relevant facts and circumstances. Equity investments without readily determinable fair values are written down to fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than carrying value. We perform a qualitative assessment on a periodic basis. We are required to estimate the fair value of the investment to determine the amount of the impairment loss. Once an investment is determined to be impaired, an impairment charge is recorded in other income (expense), net.

Goodwill

We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (May 1) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the period over which cash flows are expected to be generated, and determination of our weighted average cost of capital.

The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit.

Research and Development Costs

Costs incurred internally in researching and developing a software product to be marketed or sold to external users are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to production. The amortization of these costs is included in cost of revenue over the estimated life of the products.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our consolidated financial statements.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISKS

We are exposed to economic risk from foreign exchange rates, interest rates, credit risk, and equity prices. We use derivatives instruments to manage these risks, however, they may still impact our consolidated financial statements.

Foreign Currencies

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency positions, including hedges. Principal currency exposures include the Euro, Japanese yen, British pound, Canadian dollar, and Australian dollar.

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of the fixed-income portfolio to achieve economic returns that correlate to certain global fixed-income indices.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We manage credit exposures relative to broad-based indices to facilitate portfolio diversification.

Equity

Securities held in our equity investments portfolio are subject to price risk.

SENSITIVITY ANALYSIS

The following table sets forth the potential loss in future earnings or fair values, including associated derivatives, resulting from hypothetical changes in relevant market rates or prices:

(In millions)

Risk Categories	Hypothetical Change	September 30, 2026	Impact
Foreign currency – Revenue	10% decrease in foreign exchange rates	**$ (14,451)**	Earnings
Foreign currency – Investments	10% decrease in foreign exchange rates	**(8)**	Fair Value
Interest rate	100 basis point increase in U.S. treasury interest rates	**(1,023)**	Fair Value
Credit	100 basis point increase in credit spreads	**(387)**	Fair Value
Equity	10% decrease in equity market prices	**(2,806)**	Earnings

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 13 – Contingencies of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, operations, financial condition, results of operations, liquidity, and the trading price of our common stock. Statements in this section reflect our beliefs and opinions as to matters that could adversely affect us in the future. References to past events are provided by way of example only and are not intended to be a complete listing or a representation as to whether or not such matters have occurred in the past.

STRATEGIC AND COMPETITIVE RISKS

We face intense competition across all markets for our products and services, which could adversely affect our results of operations.

Competition in the technology sector

Our competitors range in size from diversified global companies with significant research and development resources to small, specialized firms who may be more effective in deploying technical, marketing, and financial resources. Barriers to entry in many of our businesses are low and many of the areas in which we compete evolve rapidly with changing and disruptive technologies, shifting user needs, and frequent introductions of new products and services. If we do not continue to innovate and provide products, devices, and services that appeal to businesses and consumers, we may not remain competitive, which could adversely affect our business, financial condition, and results of operations.

Competition among platform-based ecosystems

An important element of our business model has been to create platform-based ecosystems on which many participants can build diverse solutions. A well-established ecosystem creates beneficial network effects among users, application developers, and the platform provider that can accelerate growth. Establishing significant scale in the marketplace is necessary to meet consumer demand and to achieve and maintain attractive margins. Firms offering competing platforms may make it more difficult to attract and retain customers.

- A competing vertically-integrated model, in which a single firm controls the hardware and software elements of a product and related services, has succeeded with some consumer products such as PCs, tablets, smartphones, gaming consoles, wearables, and other endpoint devices. Competitors pursuing this model also earn revenue from services integrated with the hardware and software platform, including applications and content sold through their integrated marketplaces. They may also be able to claim security and performance benefits from their vertically-integrated offer. We also offer some vertically-integrated hardware and software products and services. Expansion of our vertically-integrated capabilities, including developing proprietary hardware, infrastructure, and artificial intelligence ("AI") models, could increase our cost structure, reduce margins, and expose us to operational risks.
- We derive substantial revenue from licenses of Windows operating systems on PCs. We face significant competition from competing platforms developed for a range of devices, including smartphones and tablets. These devices compete on multiple bases including price and the perceived utility of the device and its platform. Even if many users view these devices as complementary to a PC, the prevalence of these devices may make it more difficult to attract application developers to our PC operating system platforms. Competing with operating systems licensed at low or no cost may decrease our PC operating system margins. Popular products or services offered on competing platforms could increase their competitive strength. In addition, some of our devices compete with products made by our OEM partners, which may affect their commitment to our platform.
- Competing platforms have content and application marketplaces with scale and significant installed bases. Users may incur costs to move data and buy new content and applications when switching platforms. To compete successfully, we must enlist developers to write applications for our platform and ensure that these

applications have high quality, security, customer appeal, and value. Efforts to compete with competitors' content and application marketplaces may increase our cost of revenue and lower our operating margins. Competitors' rules governing their content and applications marketplaces may restrict our ability to distribute products and services through them in accordance with our technical and business model objectives.

For all of these reasons, we may not be able to compete successfully against our current and future competitors, which could adversely affect our business, operations, financial condition, and results of operations.

Business model competition

Companies compete with us based on a growing variety of business models.

- We are investing in AI across the entire company and infusing AI capabilities into our offerings. AI technology and services are a highly competitive and rapidly evolving market, and new competitors continue to enter the market. Our AI offerings compete with AI products from hyperscalers, open-source offerings, and frontier model providers, some of which are also current or potential partners. To compete effectively we must also be responsive to technological change, new and potential regulatory developments, and public scrutiny.
- A material part of our business involves cloud-based services available across the spectrum of computing devices. We and our competitors continue to devote significant resources to developing and deploying cloud-based strategies and services for consumers and business customers.
- Even as we transition more of our business to infrastructure-, platform-, and software-as-a-service business models, the license-based proprietary software model generates a substantial portion of our software revenue. We bear the costs of converting original ideas into software products through investments in research and development, offsetting these costs with the revenue received from licensing our products. Many of our competitors also develop and sell software to businesses and consumers under this model.
- Other competitors develop and offer free applications, online services, and content, and make money by selling third-party advertising. Advertising revenue funds development of products and services these competitors provide to users at little or no cost, competing directly with our revenue-generating products.
- Some companies compete with us by modifying and then distributing open-source software at little or no cost to end users, developing, making available, or using AI models that are open, and earning revenue on advertising or integrated products and services. These firms do not bear the full costs of research and development for the open-source products. Some open-source products mimic the features and functionality of our products.

The competitive pressures described above may cause decreased sales volumes, price reductions, and/or increased operating costs, such as for research and development, marketing, and sales incentives, which could adversely affect our financial condition and results of operations.

Our cloud and AI strategy requires substantial investments and depends on evolving customer demand, technological developments, competitive dynamics, and regulatory conditions, any of which could adversely affect our business, financial condition, and results of operations. We have made and are continuing to make significant capital and operational investments to develop, train, deploy, and support AI models and related cloud-based services, including building and expanding datacenters, acquiring necessary components, and securing energy resources. These investments are being made at significant scale and on an accelerated timeline, require substantial and increasing capital expenditures and continued access to capital, and are in advance of fully developed revenue streams. The associated revenue may not be realized in the expected timeframes or at expected levels. Our capital and operational investments are complex and involve projects in multiple locations around the world that expose us to increased compliance risks and political challenges, among others. Funding these investments depends on our ability to generate sufficient cash flows and obtain financing on acceptable terms. Adverse changes in interest rates, credit markets, investor sentiment, our credit ratings, or other factors affecting capital availability could increase our cost of capital or limit our ability to execute our infrastructure strategy. The financial success of these investments depends on a number of uncertain factors, including customer demand for cloud-based and AI products and services and continued customer use of Azure to build, train, deploy, and run AI workloads, our ability to price and monetize those services at levels sufficient to recover our costs, competitive dynamics affecting pricing, and the pace of adoption of AI. Customers may reduce, delay, or shift AI workloads to competing platforms, on-premises or local deployments, or other alternatives. If adoption of our AI services develops more slowly than expected, or if customers do not continue to utilize Azure for AI workloads at anticipated levels, we may not realize the expected returns on our investments.

Demand for cloud-based and AI products and services is evolving and difficult to forecast. Overestimation of demand or misalignment of capacity investments may result in underutilization of infrastructure and may lead to impairment of assets on our balance sheet. Conversely, demand exceeding available capacity limits our ability to meet customer needs in a timely manner.

The cost structure for AI products and services is subject to significant uncertainty, including with respect to model training and inference costs, the availability and pricing of components, and energy costs. If these costs increase, remain elevated, or fail to decline, or if pricing for AI products and services declines as a result of competition, commoditization, or other market forces, our margins, financial condition, and results of operations could be adversely affected.

Our AI strategy also depends in part on strategic relationships with third parties that provide technologies, models, products, and services that enhance our offerings. These relationships may change over time, and many of these partners compete with us with respect to certain products and services. We also have limited visibility into or control over the design, training data, model weights, security practices, updates, evaluations, or behavior of models and related technologies provided by third parties. Changes in strategic priorities, contractual arrangements, our access to third-party technologies, or key commercial relationships could adversely affect the competitiveness of our AI products and services. In some cases, these parties are significant customers of Azure and other cloud services. The economic benefits we expect to derive from these relationships, including through commercial arrangements, technology access, and Azure consumption, may not be realized or sustained. As we manage infrastructure capacity constraints and evolving customer demand, we may modify capacity allocations, deployment priorities, pricing, or other commercial arrangements. Strategic partners and other customers may likewise adjust their purchasing decisions, deployment strategies, workloads, or anticipated use of our products and services. As a result, expected consumption or anticipated demand may not materialize, may be delayed or reduced, or may decline over time. Any such developments could adversely affect our business, financial condition, and results of operations.

Our success depends on our ability to develop, deliver, and maintain competitive cloud-based and AI products and services that achieve broad customer adoption and sustainable revenue growth. Our ability to succeed depends on our ability to develop and deliver differentiated products and services that meet evolving customer needs, achieve broad adoption, maintain customer trust, and generate sustainable revenue and growth. The markets for cloud-based and AI products and services are highly dynamic, characterized by shifting customer expectations, increasing regulatory and governmental scrutiny, intense competition, and rapid technological change, such as the accelerating importance of agentic computing. Whether we succeed in cloud-based and AI products and services depends on our execution in several areas, including:

- Continuing to bring to market compelling cloud-based and AI products and services that generate increasing traffic and market share.
- Driving customer adoption, usage, and retention of our cloud-based and AI products and services.
- Effectively monetizing our cloud-based and AI products and services through pricing models that reflect their value while remaining competitive.
- Attracting third parties to utilize, build on, and extend our cloud and AI platforms.
- Ensuring our cloud-based and AI products and services meet the reliability expectations and specific requirements of our customers and maintain the security of their data as well as help them meet their own compliance needs.
- Making our suite of cloud-based and AI products and services platform-agnostic and maintaining the utility, compatibility, and performance of our cloud-based and AI products and services on the growing array of computing devices, including PCs, smartphones, tablets, gaming consoles, and other devices.

Our success depends on our ability to execute effectively across product development, go-to-market, customer acquisition, and customer retention initiatives. Failure to do so could reduce adoption, market share, and revenue growth. If we are not effective in executing organizational and technical changes to increase efficiency and accelerate innovation, or if we fail to generate sufficient usage of our new products and services, the timing or magnitude of any revenue growth may not be in line with these costs. This could adversely affect our operations, financial condition, and results of operations.

Our cloud-based and AI products and services may be misused by customers, users, or malicious actors for unintended, fraudulent, abusive, or unlawful purposes. Our efforts to detect, prevent, and mitigate such misuse may not be successful, which could result in reputational harm, regulatory scrutiny, service disruptions, or adverse impacts on our business, financial condition, and results of operations.

RISKS RELATING TO THE EVOLUTION OF OUR BUSINESS

We make significant investments in products and services that may not achieve expected returns. We will continue to make significant investments in research, development, and marketing for existing products, services, and technologies, including AI-based products and services. We also invest in the development and acquisition of a variety of hardware for productivity, communication, and entertainment, including PCs, tablets, and gaming devices. Investments in new technology are speculative. Commercial success depends on many factors, including innovation, developer support, and effective distribution and marketing. If customers do not perceive our latest offerings as providing significant new functionality or other value, they may reduce their purchases of new software and hardware products or upgrades, unfavorably affecting revenue. We may not achieve significant revenue from these investments for several years, if at all. New products and services may not be profitable or may not achieve operating margins as high as we have experienced historically. We may not get engagement in certain features that drive post-sale monetization opportunities. Perceptions of mismanagement, driven by regulatory activity or negative public reaction to our practices or product experiences, could negatively impact product and feature adoption. Developing new technologies is complex. It can require long development and testing periods. We could experience significant delays in new releases or significant problems in creating new products or services. These factors could adversely affect our business, financial condition, and results of operations.

Acquisitions, joint ventures, and strategic alliances could have an adverse effect on our business. We expect to continue making acquisitions and entering into joint ventures and strategic alliances as part of our long-term business strategy. For example, we have a long-term strategic partnership with OpenAI. Acquisitions and other transactions and arrangements involve significant challenges and risks, including that they do not advance our business strategy, that we get an unsatisfactory return on our investment, that they raise new compliance-related obligations and challenges, that we have difficulty integrating and retaining new employees, business systems, and technology, that they distract management from our other businesses, or that announced transactions may not be completed. If an arrangement fails to adequately anticipate changing circumstances and interests of a party, it may result in early termination or renegotiation of the arrangement. We also have limited ability to control or influence third parties with whom we have arrangements, which may impact our ability to realize the anticipated benefits. The success of these transactions and arrangements depends in part on our ability to leverage them to enhance our existing products and services or develop compelling new ones, as well as the acquired companies' ability to meet our policies and processes in areas such as data governance, privacy, digital safety, responsible AI, and cybersecurity. It may take longer than expected to realize the full economic benefits from these transactions and arrangements, such as increased revenue or enhanced efficiencies, or the benefits may ultimately be smaller than we expected, which could cause an impairment of goodwill or intangibles. We have recorded, and may in the future be required to record, a significant charge in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively affecting our results of operations. In addition, these transactions and arrangements have been and may be subject to legal and regulatory challenge. These events could adversely affect our business, operations, financial condition, and results of operations.

CYBERSECURITY, DATA PRIVACY, AND PLATFORM ABUSE RISKS

Cyberattacks and security vulnerabilities could lead to reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position.

Security of our information technology

Threats to security can take a variety of forms. Threat actors, including individual and groups of hackers and sophisticated organizations, including nation-states, state-sponsored organizations, or cybercriminal groups, continuously undertake attacks that pose threats to our customers and our internal infrastructure, and we have experienced cybersecurity incidents in which such actors have gained unauthorized access to our systems and data, as well as customer, partner, and supplier systems and data. These actors use a wide variety of methods, which include developing and deploying malicious software; exploiting known, latent, or potential vulnerabilities or intentionally designed processes in our or third-party hardware, software, or other infrastructure to attack our products and services or gain access to our networks and datacenters; using social engineering and AI-assisted techniques to induce our

employees, users, partners, suppliers, or customers to disclose sensitive information, such as passwords, or take other actions to gain access to our data or our users' or customers' data; or acting in a coordinated manner or conducting coordinated attacks. Nation-state and state-sponsored actors can sustain malicious activities for extended periods and deploy significant resources to plan and carry out attacks. Nation-state attacks against us, our customers, suppliers, or partners have increased and may continue to intensify due to our transparency to our customers, other stakeholders, and the public about cyberattacks, and during elections or periods of intense diplomatic or armed conflict. Challenges or failures to update or apply security patches to all hardware and devices connected to our systems, including end-of-life and end-of-support equipment, have resulted and may continue to result in unauthorized access to our systems and data in the future. Cyber incidents and attacks, individually or in the aggregate, could adversely affect our financial condition, results of operations, competitive position, and reputation, and expose us to legal or regulatory risk.

Cyberthreats are constantly evolving and becoming increasingly sophisticated and complex, increasing the difficulty of preventing, detecting and successfully defending against them. Threat actors also utilize emerging technologies such as AI to, among other things, increase the speed and scale of attacks by generating and refining malicious content and code, automate reconnaissance and targeting, accelerate their ability to detect or exploit vulnerabilities, and rapidly iterate on attack techniques, which can broaden the scope, intensity, and sophistication of campaigns and reduce the time we have to identify and mitigate emerging threats. Our current capabilities may not detect certain vulnerabilities or new attack methods, including attacks that utilize, manipulate, or misuse AI models or agents, which may allow them to persist in the environment over long periods of time. It may be difficult to determine the best way to investigate, mitigate, contain, and remediate the harm caused by a cyber incident. Such efforts may not be successful, and we may make errors or fail to take necessary actions. It is possible that threat actors may gain undetected access to other networks and systems after establishing a foothold on an internal system. Cyber incidents and attacks can have cascading impacts that unfold with increasing speed across our internal networks and systems, as well as those of our partners and customers. AI agents acting independently or in coordination with other agents, with limited or no human intervention, have increased and may continue to increase the speed, scale, and reach of such impacts while making the nature, scope, and consequences of actions more difficult to predict, monitor, contain, and remediate. In addition, it may take considerable time for us to investigate and evaluate the full impact of incidents, particularly for sophisticated attacks. As a result of these and other factors, we may not be able to provide prompt, full, and reliable information about the incident to our customers, partners, suppliers, regulators, and the public. Breaches of our facilities, network, or data security can disrupt the security of our systems and business applications, impair our ability to provide services to our customers and protect the privacy of their data, result in product development delays, compromise confidential or technical business information, result in theft or misuse of our intellectual property or other assets, subject us to ransomware attacks, require us to allocate more resources to improve technologies or remediate the impacts of attacks, or otherwise adversely affect our business. In addition, actions taken to remediate an incident could result in outages, data losses, and disruptions of our services.

Our internal environment continues to evolve. Often, we are early adopters of new devices and technologies. We embrace new ways of sharing data and communicating internally and with partners and customers using methods such as social networking and other consumer-oriented technologies. Increasing use of AI, including models, algorithms, and autonomous or semi-autonomous agents, in our internal or third-party systems may create new attack surfaces or methods for adversaries. As a result, the risks associated with AI and cybersecurity increasingly overlap and amplify one another. Additionally, employees and other personnel may use our models or other AI agents in ways that produce unexpected or unintended consequences. AI agents operate with varying degrees of autonomy and their actions and the resulting consequences can be difficult to predict, prevent, detect, attribute, contain, mitigate, or audit. Interactions among AI agents may produce or amplify unexpected or malicious behaviors. Employees or other internal threat actors may misuse authorized access to engage in malicious activity. Our business policies and internal security controls may not keep pace with emerging threats, the evolution of AI models, algorithms, and agents, or the evolving regulatory landscape.

Inadequate account security or organizational security practices, including those of companies we have acquired or those of the third parties we utilize, have resulted and may result in unauthorized access to our systems and data, including customer systems and data. For example, passwords may not be rotated and employee access may not be updated or removed on a timely basis. Further, third parties that we utilize may also face the AI-based enhanced cybersecurity risk as described elsewhere in these risk factors. Employees or third parties may intentionally compromise our or our users' security or systems or reveal confidential information, and laws in certain jurisdictions may compel actions by such parties against our interests and could limit our recourse. AI models and agents with access to our internal infrastructure, sensitive data, software development environments, or operational tools may present risks similar to those associated with highly privileged users or threat actors. They may take unintended or unauthorized actions, be manipulated by malicious inputs, or be compromised by threat actors, and if inadequately

controlled, facilitate unauthorized access, disclosure, alteration, or destruction of data or disruption of critical operations. Malicious actors have and may continue to exploit the supply chain to compromise our systems by, for example, injecting malware, including through software updates or compromised supplier or open-source software code, accounts, or hardware. Incidents involving the supply chain, including third-party vendors, suppliers, service providers, open-source software, or customer environments, may adversely affect our systems and our products and services, even where our own systems are not directly compromised.

Security of our products, services, devices, and customers' data

The security of our products and services is important in our customers' decisions to purchase or use our products or services across cloud and on-premises environments. Security threats are a significant challenge to companies like us, whose business is providing technology products and services to others. Threats to, or attacks on, our own infrastructure, such as the nation-state attack described in the prior risk factor, have also affected our customers and may do so in the future. The reliability of our cloud-based services and the protection of customer data depend on the security of our infrastructure and the security of third-party infrastructure upon which we rely, which includes hardware, software, and other elements provided by third parties. Adversaries tend to focus their efforts on the most popular operating systems, programs, and services, including many of ours, as well as customers with sensitive data, and we expect that to continue. In addition, adversaries can attack our customers' on-premises or cloud environments, sometimes exploiting previously unknown ("zero-day") vulnerabilities. Product vulnerabilities can persist even after we have issued security patches if customers have not installed the most recent updates, or if attackers, potentially with the assistance of artificial intelligence, reconstruct and exploit the vulnerabilities before patching. Attackers may utilize vulnerabilities to install malware to further compromise customers' systems. Adversaries will continue to attack customers as they embrace digital transformation. Adversaries that acquire user account information can use that information to compromise our users' accounts, including where accounts share the same attributes such as passwords. Inadequate account security practices may also result in unauthorized access, and user activity may result in ransomware or other malicious software impacting a customer's use of our products or services. Our products are highly complex and weaknesses may exist in our development processes. For example, code generated by AI could include errors, deficiencies, or vulnerabilities that increase our exposure to cyberattacks. Additionally, open-source software can also contain vulnerabilities that may make our products susceptible to cyberattacks as we increasingly incorporate open-source software into our products. Accordingly, our products have and may continue to contain vulnerabilities or undetected errors.

Our customers operate complex systems with third-party hardware and software from multiple vendors that may include systems acquired over many years. They expect our products and services to support all these systems and products, including those that no longer incorporate the strongest current security advances or standards. As a result, we may not be able to discontinue support of our services for a product, service, standard, or feature solely because a more secure alternative is available. Failure to utilize the most current security advances and standards can increase our customers' vulnerability to attack. Further, the rapid evolution of AI technologies and use cases, including the use of AI to identify and exploit vulnerabilities, may outpace the development, deployment, and effectiveness of security products, controls, and industry standards, particularly in complex customer environments, increasing the risk that security measures will be insufficient to address newly emerging threats. Customers of widely varied sizes and technical sophistication use our technology, and some may still have limited capabilities and resources to help them adopt and implement state-of-the-art cybersecurity practices and technologies. In addition, we must account for this wide variation of technical sophistication when defining default settings for our products and services, including security default settings, as these settings may limit or otherwise impact other aspects of operations and some customers may have limited capability to review and reset these defaults.

Cyberattacks could adversely impact our customers even if our production services are not directly compromised. We are committed to notifying our customers whose systems have been impacted as we become aware and have actionable information for customers to help protect themselves. We are also committed to providing guidance and support on detection, tracking, and remediation. We may not be able to detect the existence or extent of these attacks for all of our customers or have information on how to detect or track an attack, especially where an attack involves on-premises software such as Exchange Server where we may have no or limited visibility into our customers' computing environments.

Any of the foregoing events could result in reputational harm, loss of revenue, increased costs, or otherwise adversely affect our business, financial condition, and results of operations.

Development and deployment of defensive measures

To defend against security threats to our internal infrastructure, our cloud-based services, and our customers' systems, we must take a complex and multifaceted approach. This includes continuously engineering more secure products and services, and enhancing security, threat detection, and reliability features, including through the deployment of AI-based and automated defenses. The continual advancement and diffusion of AI models is accelerating vulnerability discovery. We must also escalate and improve our development processes and the deployment of software updates to address this accelerating pace of vulnerability discovery in our own products as well as those provided by others in a timely manner. In addition, we must develop mitigation technologies that help to secure customers from attacks even when software updates are not deployed and maintain the digital security infrastructure that protects the integrity of our network, products, and services. Further, we must provide security tools such as firewalls, anti-virus software, and advanced security and information about the need to deploy security measures and the impact of doing so.

The cost of these measures to protect products and customer-facing services could reduce our operating margins. If we fail to do these things well, actual or perceived security vulnerabilities in our processes, products, and services, data corruption issues, or reduced performance could harm our reputation and lead customers to exercise contractual or other remedies against us, reduce or delay future purchases of products or subscriptions to services, or to use competing products or services. Customers and third parties granted access to customer systems may fail to update their systems, continue to run software or operating systems we no longer support, may fail to timely install or enable security patches, or may otherwise fail to adopt adequate security practices, including in response to enhanced AI-based threats. Customers may also spend more on protecting their existing computer systems from attack, which could delay adoption of additional products or services. Customers in certain industries such as financial services, health care, and government have enhanced or specialized expectations and requirements to which we must develop and engineer our products and services. Any of these could adversely affect our reputation and results of operations. Actual or perceived vulnerabilities may lead to claims against us. Our license agreements typically contain provisions that eliminate or limit our exposure to liability, but these provisions may not withstand legal challenges. At times, to achieve commercial objectives, we may enter into agreements with larger liability exposure to customers.

Our products operate in conjunction with and are dependent on products and components across a broad ecosystem of third parties. If there is a security vulnerability in one of these components, and if there is a security exploit targeting it, we could experience adverse impacts to our results of operations, reputation, or competitive position.

Disclosure and misuse of personal data could result in liability and harm our reputation. As we continue to grow the number, breadth, and scale of our cloud-based offerings, we store and process increasingly large amounts of personal data of our customers and users. The continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. Our security controls over personal data, our training of employees and third parties on data security, and other practices we follow may not prevent the improper disclosure or misuse of customer or user data we or our vendors store and manage. Relatedly, we may fail to identify or mitigate insider threat activities that could lead to the misuse of our systems or customer and user data. In addition, third parties who have limited access to our customer or user data may use this data in unauthorized ways. Improper disclosure or misuse could harm our reputation, lead to legal exposure to customers or users, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. Our software products and services also enable our customers and users to store and process personal data on-premises or in a cloud-based environment we host. Government authorities can sometimes require us to produce customer or user data in response to valid legal orders. In the U.S. and elsewhere, we advocate for transparency concerning these requests and appropriate limitations on government authority to compel disclosure. Perceptions that the collection, use, and retention of personal information is not satisfactorily protected could inhibit sales of our products or services and could limit adoption of our cloud-based solutions by consumers, businesses, and government entities. Additional security measures we take to address customer or user concerns, or constraints on our flexibility to determine where and how to operate datacenters in response to customer or user expectations or governmental rules or actions, may increase costs or hinder sales of our products and services.

We may not be able to protect information in our products and services from use by others. LinkedIn and other Microsoft products and services contain valuable information and content protected by contractual restrictions or technical measures. In certain cases, we have made commitments to our members, customers, and users to limit access to or use of this information. Limitations on our ability to prevent third parties from scraping or gathering information or content through use of bots, agents, or other measures and using it for their own benefit due to, among

other things, changes in the law, interpretations of law, or increasing use of agentic AI, could adversely affect our business, financial condition, and results of operations.

Abuse of our platforms may harm our reputation or user engagement.

Advertising, professional, marketplace, and gaming platform abuses

For platform products and services that provide content or host ads that come from or can be influenced by third parties, our reputation or user engagement may be negatively affected by activity that is hostile or inappropriate. This activity may come from users impersonating other people or organizations, including through the use of AI technologies, dissemination of information that may be viewed as misleading or intended to manipulate the opinions of our users, or the use of our products or services that violates our terms of service or otherwise for objectionable or illegal ends. Preventing or responding to these actions may require us to make substantial investments in people and technology and these investments may not be successful, adversely affecting our business, financial condition, and results of operations.

Other digital safety abuses

Our services may be used to find, generate, store, or disseminate harmful or illegal content in violation of our terms or applicable law. We may not proactively discover such content due to scale, the limitations of existing technologies, and conflicting legal frameworks. This content may negatively affect users, our reputation, our brands, or could impact our business in certain markets. Regulatory enforcement is increasingly focused on product design, safety-by-design, and the responsibility of platform providers. At the same time, laws designed to reduce risks to children are driving new obligations for age-assurance systems, age-appropriate design, and parental controls across the online ecosystem, including within app stores and operating systems. In addition, certain AI technologies, including conversational or emotionally engaging AI systems, may present distinct risks for children and adolescents. If our safeguards are or are perceived to be inadequate, trust could be undermined even where applicable requirements are met. Failure to establish appropriate safeguards or comply with legal and regulatory requirements may subject us to enhanced regulatory oversight, civil or criminal liability, fines and penalties, or other reputational damage, which could adversely affect our business, financial condition, and results of operations.

Our products and services, how they are used by customers, and how third-party products and services interact with them, may present security, privacy, and execution risks. Our products and services may contain defects in design, manufacture, or operation that make them insecure or ineffective for their intended purposes. For example, customers control our products and services, including our AI products, within their environments, and may deploy them in high-risk scenarios or utilize them inappropriately. Our products may also collect large amounts of data in manners which may not satisfy customers or regulatory requirements. Our customers also operate complex systems with third-party hardware and software from multiple vendors whose products or personnel may take or fail to take actions which impact the reliability or security of our products and services. If our products and services do not work as intended, are utilized in methods not intended, violate the law, or harm individuals or businesses, we may be subject to legal claims or enforcement actions. These risks, if realized, may increase our costs, damage our reputation, or adversely affect our results of operations.

Issues in the development, deployment, and use of AI may result in reputational or competitive harm or liability. We are providing AI-based products and services and enabling customers and partners to build AI-based solutions using our platforms. These capabilities may be developed by Microsoft or third parties and are becoming an increasing part of our business. The increasing scale and adoption of AI amplifies challenges that may affect its development, deployment, and use, which could give rise to reputational, competitive, or legal harm. AI models and the methodologies used to train, evaluate, deploy, contain, and monitor them may be flawed. During training, evaluation, and internal and external deployment, AI models may behave in ways that are difficult to predict, prevent, detect, attribute, contain, mitigate, evaluate, or audit, and may result in unintended consequences or harm. Datasets may be overbroad, insufficient, or contain biased or inaccurate information. Content generated by AI systems may be offensive, illegal, inaccurate, or otherwise harmful. Models and agentic systems may pursue unintended goals and be manipulated through prompts, retrieved content, external communications, compromised tools, or other inputs to disclose sensitive information, disregard instructions, conceal activity, take unauthorized actions, or otherwise engage in harmful activity. Ineffective or inadequate AI development or deployment practices by Microsoft or others could result in incidents that impair the acceptance of AI solutions, cause harm to individuals, customers, or society, or result in our products and services not working as intended. Human review of certain inputs and outputs or other forms of human oversight may be required, including for agentic AI systems that can take actions autonomously. Companion or highly-personalized AI systems may result in over-reliance or dependence by users that is harmful. Our implementation of AI

systems could result in legal liability, regulatory action, litigation, brand, reputational, or competitive harm, or other adverse impacts. These risks may stem from issues related to AI model and system capabilities, intellectual property, data privacy, product liability, and other claims associated with AI training, outputs, system behavior, and development and deployment practices. They are further compounded by the evolving regulatory landscape, with new laws emerging globally and increased scrutiny from regulators and lawmakers. Certain AI technologies and use cases present ethical issues or may have broad or uneven impacts on society or vulnerable groups within society. There is also rising divergence globally in how to address these issues and impacts, with the result that we will need to navigate a web of different tensions across geographies. We have experienced, and expect to continue to experience, instances in which the AI solutions we enable or offer produce unintended consequences, are used or customized in unforeseen ways, or operate in a manner inconsistent with our responsible AI policies and practices. These outcomes may give rise to public controversy, societal concerns, or regulatory actions relating to human rights, privacy, employment, or other social, economic, or political issues, and could adversely affect our reputation, competitive position, business, financial condition, and results of operations.

OPERATIONAL RISKS

We may be unable to develop and expand adequate infrastructure. Our increasing user traffic, our growth in services, and the complexity of our products and services demand more infrastructure capacity and computing power. We have spent and will continue to spend substantial amounts to build, purchase, or lease datacenters and equipment and to upgrade our technology and network infrastructure. Our infrastructure capacity depends on the availability of permitted and buildable land, predictable and affordable energy, networking supplies, and servers, including graphics processing units and other components. These demands continue to increase as we introduce new products and services and support the growth and the augmentation of existing services, and scale further the incorporation of AI features and/or functionality. We are rapidly growing our business of providing a platform and back-end hosting for services provided by third parties to their end users. In addition, infrastructure in certain geographies carries higher safety and reliability risks. Maintaining, securing, and expanding our infrastructure globally is expensive and complex.

The availability, reliability, and cost of electrical power are critical to the operation and expansion of our datacenters. In many regions, electricity generation, transmission, and distribution infrastructure is experiencing increasing demand and capacity constraints. Limitations in power availability, delays in obtaining power connections, outages, shortages, increased energy costs, or requirements imposed by utilities, regulators, or other market participants could restrict our ability to develop or expand datacenter capacity. In addition, alternative energy sources and other emerging solutions may not be available in sufficient quantities, may not timely scale to meet our requirements, or may be available only at higher costs. If we are unable to secure adequate power resources on commercially reasonable terms, our ability to support customer demand and execute our growth strategy could be adversely affected.

Our ability to develop additional capacity is also subject to land availability, zoning restrictions, environmental reviews, permitting requirements, and other regulatory approvals. Changes in governmental policies, permitting processes, environmental regulations, sustainability requirements, building standards, energy regulations, or other factors beyond our control may delay projects, restrict development opportunities, impose additional compliance obligations, or increase costs. We also face community opposition, state and local moratoriums, and hyper-local dissent, as well as increasingly coordinated opposition to infrastructure development across jurisdictions, including through the involvement or influence of elected officials, policymakers, and advocacy groups. Our failure to navigate successfully any of these challenges may delay projects, restrict development opportunities, impose additional compliance obligations, or increase costs.

The construction and operation of datacenters also requires significant numbers of skilled technical, engineering, construction, and operational personnel. Labor shortages, competition for talent, wage inflation, labor disputes, immigration restrictions, or shortages of specialized contractors could increase operating and construction costs, extend project timelines, and adversely affect our ability to deploy infrastructure at the pace required to meet demand.

We may experience supply problems. There are limited suppliers for certain critical device and datacenter components, and those items are in short supply. We continue to identify and evaluate opportunities to expand our datacenter locations and increase our server capacity to meet the evolving needs of our customers, particularly given the growing demand for AI products and services. Our competitors are also scaling their infrastructure and use some of the same suppliers and materials for hardware components as we do, which impacts price and availability. We depend on the timely availability of critical hardware, equipment, and components used to construct and operate datacenters and related infrastructure. We have experienced and may continue to experience supply constraints, including shortages of semiconductors, networking equipment, power systems, cooling equipment, and other key

components. Expanding manufacturing or supply capacity for certain components may require significant investments and multi-year lead times. As components are delayed or become unavailable or more expensive, whether because of supplier capacity constraint or allocation decisions, industry shortages, legal or regulatory changes that restrict supply sources, geopolitical tensions, trade restrictions, tariffs, transportation disruptions, supplier financial distress, natural disasters, public health events, instability in regions important to our or our suppliers' supply chains, or other reasons, we may not obtain timely replacement supplies, or may be able to obtain supplies only by entering into long-term purchase commitments, price commitments, paying prices above prevailing market rates, or other arrangements on terms that are less favorable than prevailing market terms. Any delay or inability to obtain necessary equipment, hardware, or components on acceptable terms and timelines could delay infrastructure deployments, result in reduced sales, higher costs, or inadequate datacenter capacity to support the delivery and continued development of our products and services. Component shortages, excess or obsolete inventory, or price reductions resulting in inventory adjustments have and may increase our cost of revenue.

In addition to infrastructure, other products such as XBOX consoles, Surface devices, and other hardware are similarly subject to supply chain challenges and disruptions, resulting in shortages which could adversely affect our business, operations, financial condition, and results of operations.

We may experience outages, disruptions, or capacity constraints if we fail to maintain and operate adequate infrastructure or secure the resources necessary to support it. Maintaining, securing, and operating our infrastructure requires that we maintain an Internet connectivity infrastructure and storage and compute capacity that is robust, resilient, and reliable within competitive, economic, and regulatory constraints that continue to evolve. The cost or availability of critical resources necessary to support our infrastructure, including power, networking supplies, servers, graphics processing units, and other components, could be adversely affected by a variety of factors, including supply chain and energy issues, evolving environmental or other regulations, and geopolitical disruptions.

In addition to datacenters we own or operate, we rely on third-party providers, including colocation facilities, leased datacenters, and cloud infrastructure providers, to support portions of our operations. If any of these providers fail to meet our requirements, or experience service interruptions, operational failures, capacity constraints, physical damage, cybersecurity incidents, or other disruptions, our ability to provide services, maintain system performance, or meet customer expectations could be negatively impacted.

Inefficiencies or operational failures, including temporary or permanent loss of customer data, outages, insufficient Internet connectivity, insufficient or unavailable power or water supply, inefficient operation of our of our cloud-based and AI products and services on our infrastructure, or inadequate storage and compute capacity could diminish the actual or perceived quality of our products, services, and user experience, resulting in contractual liability, claims by customers and other third parties, regulatory actions, damage to our reputation, and loss of current and potential users, subscribers, and advertisers, each of which could adversely affect our business, operations, financial condition, and results of operations.

We may experience other quality problems. Our AI and other software products and services also have and may in the future experience quality or reliability problems. The processes we use to develop our software are imperfect. Like all software, our software contains bugs and other defects that interfere with their intended operation. Our customers rely on us for critical business functions and multiple workloads. Many of our products and services are interdependent on one another. Our products and services may be impacted by interaction with third-party products and services. Our customers may also utilize their own or third-party products and services whose reliability is dependent on interaction with our products and services. Each of these circumstances potentially magnifies the impact of quality or reliability issues. Weaknesses in our processes could result in defects we do not detect and fix in pre-release testing, which could cause reduced sales, damage to our reputation, repair or remediation costs, delays in the release of new products or versions, or legal liability, any of which could adversely affect our business, financial condition, and results of operations. Although our license agreements typically contain provisions that eliminate or limit our exposure to liability, these provisions may not withstand legal challenge.

Our datacenters and our hardware products such as XBOX consoles, Surface devices, and other devices we design and market are highly complex. Failure to prevent, detect, or address defects in design, manufacture, or associated software could adversely affect our business and results of operations.

LEGAL, REGULATORY, AND LITIGATION RISKS

We are subject to a variety of new, existing, and evolving legal and regulatory requirements that could adversely affect our results of operations. We are subject to a wide range of laws, regulations, and legal requirements in the U.S. and globally, including those that may apply to our products and online services offerings, and those that impose requirements related to user privacy, cybersecurity, telecommunications, data storage and protection, digital accessibility, advertising, and online safety. Laws in several jurisdictions, including EU Member State laws under the European Electronic Communications Code, increasingly define certain of our services as regulated services. This trend may continue with our offerings becoming subject to additional data protection, security, digital safety, law enforcement surveillance, and other obligations. Regulators and private litigants may assert that our collection, use, and management of customer data and other information is inconsistent with their laws and regulations, including laws that apply to the tracking of users via technology such as cookies. In addition, laws requiring us to retrieve and produce customer data in response to compulsory legal demands from law enforcement and governmental authorities are evolving and the requests we are experiencing are increasing in volume and complexity.

New, existing, and evolving laws and regulations, or interpretations or applications of existing laws and regulations in a manner inconsistent with our interpretations of such laws and regulations or our practices, may result in modification of our products and services, altered business models and operations, increased costs, reputational damage, and civil or criminal liability. Examples include laws and regulations regarding:

- **Competition laws and new market regulation:** Government agencies closely scrutinize us under U.S. and foreign competition laws. Governments are actively enforcing competition laws and regulations and enacting new regulations to intervene in digital markets, and this includes markets such as the EU, the United Kingdom, the U.S., and China. Some jurisdictions also allow competitors or consumers to assert claims of anti-competitive conduct. U.S. and foreign antitrust authorities have previously brought enforcement actions and continue to scrutinize our business. Competition law enforcement actions and court decisions along with new market regulations may result in fines or hinder our ability to provide the benefits of our software to consumers and businesses, reducing the attractiveness of our products and the revenue that comes from them. New competition law actions or obligations under market regulation schemes could be initiated, potentially using previous actions as precedent.

- **AI:** Legislative and regulatory action on AI is evolving rapidly and accelerating across multiple jurisdictions, which is increasing costs and may create liability and restrict opportunity. For example, the EU's AI Act may increase costs or impact the provision or operation of our AI models and services in the European market and new external audit and evaluation obligations for advanced AI models and systems in several U.S. states may have similar effects. In addition, governments may impose restrictions on the development, deployment, availability, or cross-border access to advanced AI models based on safety, cybersecurity, or national security or may apply laws to AI models in ways we cannot anticipate. AI regulatory areas include model and system development and deployment, frontier model safety and security, transparency, content provenance, digital replicas, and AI companions.

- **Anti-corruption:** The Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws and regulations ("Anti-Corruption Laws") prohibit corrupt payments by our employees, vendors, or agents, and the accounting provisions of the FCPA require us to maintain accurate books and records and adequate internal controls. From time to time, we receive inquiries from authorities in the U.S. and elsewhere which may be based on reports from employees and others about our business activities and our compliance with Anti-Corruption Laws. Periodically, we receive such reports directly and investigate them and also cooperate with investigations by U.S. and foreign law enforcement authorities.

- **Trade:** Increasing trade laws, policies, sanctions, and other regulatory requirements also affect our operations in and outside the U.S. relating to trade and investment. Economic sanctions in the U.S., the EU, and other countries could prohibit business with restricted entities or countries. U.S. export controls restrict Microsoft from offering many of its products and services to, or making investments in, certain entities in specified countries. U.S. import controls restrict us from integrating certain information and communication technologies into our supply chain and allow for government review of transactions involving information and communications technology from countries determined to be foreign adversaries. Supply chain regulations may impact the availability of goods or result in additional regulatory scrutiny. Restrictions on data flows and outbound investment and customer sensitivities may limit our ability to leverage parts of our global engineering footprint to provide services in certain jurisdictions. Increased geopolitical instabilities and changing U.S. Administration priorities create an unpredictable trade landscape. U.S. tariffs, shifting AI export controls policies, and disagreements among governments on sanctions policies toward third

countries, has and may continue to increase operational costs, create uncertainty in the continuity of our products, and accelerate sovereignty initiatives among international partners and customers. The volatility of U.S. tariffs has triggered economic uncertainty and could impact cloud and devices supply chain cost competitiveness. The potential replacement of the rescinded AI Diffusion Rule, expanded export license conditions, and other potential AI-related rulemakings could adversely affect Microsoft's business, strategy, and operations. Periods of intense diplomatic or armed conflict, such as the conflicts in Ukraine and the Middle East could continue to result in (1) new and rapidly evolving sanctions and trade restrictions, which may impair trade with sanctioned individuals and countries, and (2) negative impacts to regional trade ecosystems among our customers, partners, and us.

•**Cybersecurity:** Legislative and regulatory actions related to cybersecurity may increase the costs associated with developing, implementing, or securing our products and services. The legal and regulatory environment in this area is complex and continues to evolve across multiple jurisdictions. As a result, there is considerable uncertainty regarding both current and future compliance obligations. This uncertainty increases the risk that we may incur additional operational costs, face regulatory enforcement actions, or encounter challenges in the development and deployment of our products.

•**Datacenter construction and operation:** Emerging laws, regulations, and policies governing the siting, permitting, construction, and operation of datacenters are restricting and delaying infrastructure development, increasing costs, and imposing additional operational and reporting obligations. These requirements may address energy and water use, environmental impacts, emissions, grid reliability, land use, building standards, and community impacts, and may vary or conflict across jurisdictions. Changes in these requirements, or our inability to obtain or maintain necessary approvals, could limit available capacity, delay projects, require operational changes, or adversely affect our business, financial condition, and results of operations.

•**Handling of personal data:** Legal requirements relating to the collection, use, storage, handling, and transfer of personal data globally continue to evolve. The growth of our cloud-based and AI products and services internationally relies on the processing of personal data and the movement of data across national boundaries. Data protection authorities and governments in the EU and other markets have and may again restrict and/or block the use of services that involve the transfer of data across borders and impose new obligations on the processing of personal data. New and evolving rules and restrictions could increase the cost and complexity of delivering our products and services.

•**Environmental, Social, and Governance:** Laws, regulations, and policies relating to environmental, social, and governance matters are being developed and formalized in Europe, the U.S., and elsewhere, which may include greenhouse gas emissions and energy usage caps, permitting, reporting, procurement, operational, and infrastructure-siting requirements as well as specific, target-driven environmental, social, and governance frameworks and disclosure requirements. These laws, regulations, and policies may require significant investments or operational changes and may result in new or unexpected costs. In addition, in 2020 we announced goals to become carbon negative, water positive, and zero waste by 2030. AI development and deployment involves managing the demand for energy, water, land, and other resources, increasing operational costs and challenging the viability of these goals. Any failure or perceived failure to meet our sustainability goals, or to meet various sustainability regulatory requirements, could result in claims and lawsuits, regulatory actions, penalties, or damage to our reputation, each of which could adversely affect our business, operations, financial condition, and results of operations.

How these laws and regulations apply to our business is often unclear, subject to change, and sometimes may conflict or be inconsistent from jurisdiction to jurisdiction. In addition, governments' approach to enforcement, and our products and services, are continuing to evolve. Political and social change may increase this legal and regulatory volatility. Compliance with existing, expanding, or new laws and regulations may involve significant costs and operational efforts, or require changes to our business, including our products, that could adversely affect our business, operations, financial condition, and results of operations. Noncompliance could result in the imposition of penalties, criminal sanctions, or orders to cease the alleged noncompliant activity. If our products do not meet customer expectations or legal requirements, we could face regulatory or legal actions, and our business, operations, financial condition, and results of operations could be adversely affected.

We have claims and lawsuits against us that may result in adverse outcomes. We are subject to a variety of claims and lawsuits. These claims may arise from a wide variety of business practices and initiatives, including major new product releases, AI products and services, significant business transactions, warranty or product claims, employment practices, and regulation. As we continue to expand our business and offerings, we may experience new and novel legal claims. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. Litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. An adverse impact to our financial condition and results of operations could occur for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

Our business with government customers may present additional uncertainties. We derive substantial revenue from government contracts. Government contracts and regulatory requirements can present risks and challenges not present in private commercial agreements. For instance, we are subject to government audits and investigations relating to these contracts, and we are required to provide assurance and attestations about our products and processes. If we do not satisfy contractual or regulatory requirements, we could be suspended or debarred as a governmental contractor, we could incur civil and criminal fines and penalties, and under certain circumstances contracts may be rescinded. Some agreements may allow a government to terminate without cause and provide for higher liability limits for certain losses. Some contracts may be subject to periodic funding approval, reductions, cancellations, or delays which could adversely impact public-sector demand for our products and services. In some cases what is considered compliant or otherwise acceptable government contractor behavior can shift over time, leading to customer dissatisfaction. These events could negatively impact our financial condition, results of operations, and reputation.

We may have additional tax liabilities. We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We may recognize additional tax expense and be subject to additional tax liabilities due to changes in tax laws, regulations, and administrative practices and principles, including changes to the global tax framework, in various jurisdictions. In recent years, multiple domestic and international tax proposals were proposed to impose greater tax burdens on large multinational enterprises. The Organisation for Economic Co-operation and Development continues to advance proposals or guidance in international taxation, including global minimum tax.

We are regularly under audit by tax authorities in different jurisdictions. Although we believe that our provision for income taxes and our tax estimates are reasonable, tax authorities may disagree with certain positions we have taken. In addition, economic and political pressures to increase tax revenue in various jurisdictions may make resolving tax disputes favorably more difficult. We are currently under IRS audit for prior tax years and have received Notices of Proposed Adjustment ("NOPAs") from the IRS for the tax years 2004 to 2013. The primary issues in the NOPAs relate to intercompany transfer pricing. In the NOPAs, the IRS is seeking an additional tax payment of $28.9 billion plus penalties and interest. The final resolution of the proposed adjustments, and other audits or litigation, may differ from the amounts recorded in our consolidated financial statements and adversely affect our results of operations in the period or periods in which that determination is made.

We earn a significant amount of our operating income outside the U.S. A change in the mix of earnings and losses in countries with differing statutory tax rates, changes in our business or structure, or the expiration of or disputes about certain tax agreements in a particular country may result in higher effective tax rates for the company. In addition, changes in U.S. federal and state or international tax laws applicable to corporate multinationals, other global fundamental law changes currently being considered by many countries, including in the U.S., and changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions could adversely affect our financial condition and results of operations.

INTELLECTUAL PROPERTY RISKS

We face risks related to the protection and utilization of our intellectual property that may result in our business and operating results being harmed. Protecting our intellectual property rights and combating unlicensed copying and use of our software, source code, trade secrets, and other intellectual property on a global basis is difficult. Similarly, the absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. Use of some third-party technology, such as frontier AI that trains on our interactions with it, could put our intellectual property at risk.

Source code, the detailed program commands for our software programs, is critical to our business. Unauthorized access to or disclosure of source code or other intellectual property may negatively impact future trade secret protection for that intellectual property. It may then become easier for third parties to compete with our products by copying functionality, which could adversely affect our results of operations. Unauthorized access to or disclosure of source code or other intellectual property also increases the security risks described elsewhere in these risk factors.

Third parties may claim that we infringe their intellectual property. From time to time, others claim we infringe their intellectual property rights, including current copyright infringement and other claims arising from AI training, inference, and output. To resolve these claims, we may enter into royalty-bearing data access or licensing agreements on terms that are less favorable than currently available, stop selling or redesign affected products or services, or pay damages to satisfy indemnification commitments with our customers. Adverse outcomes could also include monetary damages or injunctive relief that may limit or prevent importing, marketing, and selling our products or services that have infringing technologies. We have paid significant amounts to settle claims related to the use of technology and intellectual property rights and to procure intellectual property rights as part of our strategy to manage this risk, and may continue to do so, which could adversely affect our results of operations.

GENERAL RISKS

If our reputation or our brands are damaged, our business and results of operations may be harmed. Our reputation and brands are globally recognized and are important to our business. Our reputation and brands affect our ability to attract and retain consumer, business, and public-sector customers. Our reputation or brands could be damaged by product safety, quality, or accessibility issues; our environmental impact, sustainability, supply chain practices, or human rights record; backlash from customers, government entities, advocacy groups, employees, or other stakeholders regarding our product offering decisions, public policy positions, or corporate philanthropic initiatives; the introduction of new features, products, services, or terms of service that customers, users, or partners do not like; public scrutiny of our decisions regarding user privacy, data practices, content, or the development and deployment of AI; or data security breaches, cybersecurity incidents, responsible AI failures, compliance failures, or actions of partners or individual employees.

Social media may increase the likelihood, speed, and magnitude of negative brand events. If our brands or reputation are damaged, it could adversely affect our business, results of operations, or ability to attract the most highly qualified employees.

Adverse economic or market conditions could harm our business. Worsening economic conditions, including inflation, recession, pandemic, or other changes in economic conditions, periods of economic uncertainty, evolution of customer demand, technology investment cycles, interest rates, foreign exchange rates, or the timing and mix of customer spending, may cause lower or delayed IT spending and adversely affect our results of operations. If demand for computing power, PCs, servers, and other computing devices declines, or consumer or business spending for those products declines, could adversely affect our results of operations. Such conditions could also disrupt our distribution channels, including through financial distress or bankruptcy of a significant distributor, OEM, or retailer, and impair our customers' ability to pay amounts owed, resulting in increased allowances for doubtful accounts and write-offs of accounts receivable.

We maintain an investment portfolio of various holdings, types, and maturities. These investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by market downturns or events that affect global financial markets. If global financial markets decline for long periods, or if there is a downgrade of the U.S. government credit rating due to an actual or threatened default on government debt, our investment portfolio could be adversely affected and we could determine that more of our investments have experienced a decline in fair value, requiring impairment charges that could adversely affect our financial condition and results of operations.

Catastrophic events or geopolitical conditions could disrupt our business. A disruption or failure of our systems, operations, or supply chain because of a major earthquake, weather event, cyberattack, terrorist attack, pandemic, or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. As an example, our corporate headquarters, a significant portion of our research and development activities, and certain other essential business operations are located in seismically active regions. A catastrophic event that results in the destruction or disruption of any of our critical business or systems, or the infrastructure or systems they rely on, such as power grids, could harm our ability to conduct normal business operations or adversely affect our results of operations. Providing our customers with more services and solutions in the cloud puts a premium on the resilience of our systems and strength of our business continuity management plans and magnifies the potential negative consequences of prolonged service outages.

Abrupt political change, terrorist activity, and armed conflict pose economic and other risks, which may negatively impact our ability to sell to and collect from customers, increase our operating costs, or otherwise disrupt our operations in markets both directly and indirectly impacted by such events. These conditions also may add uncertainty to the timing and budget for technology investment decisions by our customers and may cause supply chain disruptions. Geopolitical change may result in changing regulatory systems and requirements and market interventions that could impact our operating strategies, access to national, regional, and global markets, hiring, and profitability. Geopolitical instability may lead to sanctions and impact our ability to do business in some markets or with some public-sector customers. Any of these changes could adversely affect our results of operations. Changes in geopolitical conditions also increase the security risks described elsewhere in these risk factors.

Regional epidemics or a global pandemic could adversely affect our business, operations, financial condition, and results of operations, depending on their duration and scope, responsive actions by governments, businesses, and individuals, and effects on economic activity and financial markets, and containment measures may intensify other risks described in these risk factors.

Climate change and related environmental regulation or changes in the availability, demand, or cost of energy and other resources could increase the cost or reduce the availability of goods and services necessary to operate our business, including the energy required to power and cool computing infrastructure used to develop software and provide cloud-based services.

Our global business exposes us to operational and economic risks. Our customers, employees, and infrastructure are located throughout the world and a significant part of our revenue comes from international sales. The global nature of our business creates operational, economic, and geopolitical risks. Global, regional, and local economic developments, monetary policy, geopolitical tension, restrictions on international trade, such as tariffs and other controls on imports or exports, inflation, and recession, as well as political and military disputes, could adversely affect our results of operations. Non-compliance with sanctions as well as general ecosystem disruptions could adversely affect our business, financial condition, and results of operations.

In addition, our international growth strategy includes certain markets, the developing nature of which presents several risks, including deterioration of social, political, labor, or economic conditions in a country or region, and difficulties in staffing and managing foreign operations. Emerging nationalist and protectionist trends and concerns about human rights, the environment, and political expression in specific countries may significantly alter the trade and commercial environments. Changes to trade policy or agreements as a result of populism, protectionism, or economic nationalism may result in higher tariffs, local sourcing initiatives, and non-local sourcing restrictions, disagreements among governments on export controls and sanctions toward third countries, investment restrictions, or other developments that make it more difficult to operate and sell our products in foreign countries. Disruptions of these kinds could adversely affect our business, financial condition, and results of operations. Although we hedge a portion of our international currency exposure, significant fluctuations in foreign exchange rates between the U.S. dollar and foreign currencies could adversely affect our results of operations.

Our business depends on our ability to attract and retain talented employees. Our business depends on attracting, developing, and retaining highly skilled employees and leaders in a competitive labor market. Our brand, reputation, and ability to maintain an inclusive work environment are important to recruiting and retention. Restrictions on the international flow of technical and professional talent, including changes in U.S. immigration laws or policies, may limit our ability to adequately staff our research and development efforts. If we are unable to recruit and retain highly skilled employees and key leaders, our ability to develop and deliver successful products and services could be adversely affected. Effective succession planning and knowledge transfer are also important to our long-term success, and failures in these areas could hinder our strategic planning and execution. Employment laws and their application to our workforce practices may increase our operating costs or reduce our flexibility in meeting workforce needs. Although our global workforce is predominantly non-unionized, some employees in the U.S. and internationally are represented by unions or works councils, and increased unionization could result in higher costs and operational changes, including those associated with establishing and managing relationships with worker representatives.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

SHARE REPURCHASES AND DIVIDENDS

Following are our monthly share repurchases for the first quarter of fiscal year 2027:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
				(In millions)
July 1, 2026 – July 31, 2026	**2,921,818**	**$ 393.77**	**2,921,818**	**$ 39,480**
August 1, 2026 – August 31, 2026	**1,394,620**	**494.12**	**1,394,620**	**38,790**
September 1, 2026 – September 30, 2026	**2,172,432**	**499.62**	**2,172,432**	**37,705**
	6,488,870		**6,488,870**	

All share repurchases were made using cash resources. Our share repurchases may occur through open market purchases or pursuant to a Rule 10b5-1 trading plan. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards.

Our Board of Directors declared the following dividends during the first quarter of fiscal year 2027:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
September 15, 2026	**November 19, 2026**	**December 10, 2026**	**$ 0.98**	**$ 7,279**

We returned $10.2 billion to shareholders in the form of share repurchases and dividends in the first quarter of fiscal year 2027. Refer to Note 14 – Stockholders' Equity of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q) for further discussion regarding share repurchases and dividends.

ITEM 5. OTHER INFORMATION

Insider Trading Arrangements

None of our officers or directors, as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, adopted, modified, or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as defined in Item 408 of Regulation S-K, during the three months ended September 30, 2026.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	Period Ending	Exhibit	Filing Date
10.1*	Form of Performance Stock Award Agreement Under the Microsoft Corporation 2026 Stock Plan	X				
15.1	Letter regarding unaudited interim financial information	X				
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Inline XBRL Instance Document–the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents	X				
104	Cover page formatted as Inline XBRL and contained in Exhibit 101	X				

** Indicates a management contract or compensatory plan or arrangement.*
*** Furnished, not filed.*

Items 3 and 4 are not applicable and have been omitted.

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; thereunto duly authorized.

MICROSOFT CORPORATION

/s/ ALICE L. JOLLA
Alice L. Jolla
Corporate Vice President and Chief Accounting Officer (Duly Authorized Officer)

October 28, 2026