
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016
- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From _____ to _____
Commission File Number 001-37845

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Microsoft Corporation
One Microsoft Way
Redmond, Washington 98052-6399**

REQUIRED INFORMATION

The One Microsoft Puerto Rico Retirement Plan ("the Plan") is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Therefore, in lieu of the required information outlined as Items 1-3 of the Form 11-K, the statements of net assets available for benefits and the related statements of changes in net assets available for benefits as of and for the years ended December 31, 2016 and 2015, which have been prepared in accordance with the financial reporting requirements of ERISA, are attached hereto as Appendix 1 and incorporated herein by this reference.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report on Form 11-K to be signed on its behalf by the undersigned hereunto duly authorized.

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

Date: June 22, 2017

/s/ MIGDALIA BONILLA
Migdalia Bonilla
General Manager

Date: June 22, 2017

/s/ NILKA RIVERA
Nilka Rivera
Controller

Date: June 22, 2017

/s/ MILDRED SEIN HERNANDEZ
Mildred Sein Hernandez
Human Resources Manager

Appendix 1

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM;
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015;
NOTES TO FINANCIAL STATEMENTS; AND
SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

TABLE OF CONTENTS

| | Page |
|---|------|
| REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM | 1 |
| FINANCIAL STATEMENTS: | |
| Statements of Net Assets Available for Benefits as of December 31, 2016 and 2015 | 2 |
| Statements of Changes in Net Assets Available for Benefits for the Years Ended December 31, 2016 and 2015 | 3 |
| Notes to Financial Statements | 4 |
| SUPPLEMENTAL SCHEDULES: | |
| Supplemental Schedule of Assets Held at End of Year as of December 31, 2016 | 9 |
| Supplemental Schedule of Delinquent Participant Contributions for the Year Ended December 31, 2016 | 10 |
| EXHIBIT: | |
| Consent of Independent Registered Public Accounting Firm | |

NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Administrative Committee and Participants of the
One Microsoft Puerto Rico Retirement Plan:

We have audited the accompanying statements of net assets available for benefits of the One Microsoft Puerto Rico Retirement Plan (the "Plan") as of December 31, 2016 and 2015, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedules of (1) assets held at end of year as of December 31, 2016, and (2) delinquent participant contributions for the year ended December 31, 2016 have been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedules are the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington
June 22, 2017

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| December 31, | 2016 | 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Investments held by trustee, at fair value | \$ 16,495,272 | \$ 14,153,711 |
| Receivables: | | |
| Participant loans | 608,590 | 591,810 |
| Participant contributions | 36,177 | 60,311 |
| Employer contributions | 13,147 | 21,542 |
| Interest and other | 239 | 1,300 |
| Total receivables | 658,153 | 674,963 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 17,153,425 | \$ 14,828,674 |

See accompanying notes.

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| Year Ended December 31, | 2016 | 2015 |
|--|----------------------|----------------------|
| ADDITIONS | | |
| Net investment income: | | |
| Net increase (decrease) in fair value of investments | \$ 582,634 | \$ (200,854) |
| Interest and dividends | 573,794 | 607,872 |
| Total net investment income | <u>1,156,428</u> | <u>407,018</u> |
| Contributions: | | |
| Participant contributions | 1,485,671 | 1,461,372 |
| Employer contributions | 516,977 | 509,151 |
| Total contributions | <u>2,002,648</u> | <u>1,970,523</u> |
| Interest income on participant loans | 21,861 | 17,150 |
| Total additions | <u>3,180,937</u> | <u>2,394,691</u> |
| DEDUCTIONS | | |
| Benefits paid to participants | 851,686 | 554,176 |
| Administrative expenses | 4,500 | 3,000 |
| Total deductions | <u>856,186</u> | <u>557,176</u> |
| INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS | 2,324,751 | 1,837,515 |
| NET ASSETS AVAILABLE FOR BENEFITS | | |
| Beginning of year | 14,828,674 | 12,991,159 |
| End of year | <u>\$ 17,153,425</u> | <u>\$ 14,828,674</u> |

See accompanying notes.

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF THE PLAN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Plan Description

The One Microsoft Puerto Rico Retirement Plan (the “Plan”), a defined contribution retirement plan, is sponsored by Microsoft Operations Puerto Rico, LLC, Microsoft Caribbean, Inc., and Microsoft Retail Store-Puerto Rico, LLC (collectively, the “Sponsors”). The Plan is administered by the Administrative Committee (the “Plan Administrator”) and subject to the provisions of ERISA and Puerto Rico income tax laws. The Plan’s trustee and recordkeeper is Banco Popular de Puerto Rico—Trust Division. The information below summarizes certain aspects of the Plan as in effect during 2016 and 2015, and is intended to be a summary only. Plan participants should refer to the Summary Plan Description (“Plan Document”) for more complete information.

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Eligibility

Regular and retail services employees of participating employers who are on the Sponsor’s payroll, have reached age 18, and are residents of Puerto Rico may enroll in the Plan at any time. Eligible employees may become a participant in the Plan immediately on their hire date since there is no service requirement to become a Plan participant.

Eligible Compensation

Eligible compensation represents total compensation paid to participants that is included in income for income tax purposes. Eligible compensation excludes car allowance, Christmas bonus, severance package, relocation package, signing bonus, rewards, and recognitions.

Contributions

Participant Contributions

Participants may contribute to the Plan on a pre-tax basis using eligible compensation each pay period. Participants reaching age 50 or older by the end of the Plan year may also elect to make additional catch-up contributions to the Plan on a pre-tax basis. Such contributions are excluded from the participant’s taxable income for income tax purposes until received as a withdrawal or distribution from the Plan. Additionally, participants may make contributions on an after-tax basis which may not exceed 10 percent of the aggregate compensation paid to the employee during all the years he or she has been a Plan participant. Participants may also make rollover contributions representing distributions from other Puerto Rico qualified plans. All contributions are subject to certain Puerto Rico Internal Revenue Code (“PRIRC”) limitations and the limitations set forth in the Plan Document.

Effective July 2016, the investment of new contributions or transfer of existing account holdings into Microsoft Common Stock within the Plan was discontinued. Participant accounts with existing Microsoft Common Stock can retain those holdings, and dividends on Microsoft Common Stock can continue to be reinvested.

[Table of Contents](#)

Employer Contributions

The Sponsors make an employer matching contribution to each participant's account equal to 50 percent of the amount of the participant's contribution. The maximum participant contribution amount eligible to be matched is 6 percent of eligible compensation as defined by the Plan.

Participant Accounts

Each participant's account is credited with (a) participant contributions and employer contributions and (b) the allocation of Plan earnings and expenses, based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. All amounts in participant accounts are participant-directed. Participants may invest in various financial instruments including common stock and mutual funds.

Vesting

Participants are fully vested in Plan accounts at all times.

Distributions

Active participants may take a withdrawal from the Plan in the event of a financial hardship. A hardship withdrawal is limited to pre-tax contribution accounts and catch-up contribution accounts. A hardship withdrawal will result in a twelve-month suspension of pre-tax and after-tax contributions to the Plan. Active participants may also take a withdrawal from their rollover and after-tax account types within the Plan without meeting one of the hardship criteria.

After reaching age 59 ½, active participants may withdraw all, or any portion, of the balance in their accounts. Distributions, in full or any portion, may also occur if the participant terminates employment, retires, becomes permanently disabled, or dies. Distributions of investments are in the form of cash and are normally made in a lump-sum, unless periodic payments are elected (monthly, quarterly, semiannual, or annual installments of substantially equal amounts over a period not to exceed 10 years). There were no participants who elected to withdraw from the Plan that had not yet been paid as of December 31, 2016 or 2015.

Administrative Expenses

The Plan's administrative expenses are paid by the Sponsors as provided in the Plan Document. All investment management and transaction fees directly related to the Plan investments are paid by the Plan. Participants are responsible for fees associated with certain transactions such as loan originations and maintenance. Management fees and operating expenses charged to the Plan for investments are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

Plan Amendment and Termination

The Sponsors have the right to amend or terminate the Plan. If the Plan is terminated, all account balances will be distributed in the form and manner determined by the Plan Administrator.

Risks and Uncertainties

The Plan utilizes various investment instruments, including common stock and mutual funds. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein. Actual results could differ from these estimates and assumptions. The Plan has no contingent assets or liabilities for any periods presented in these financial statements.

Valuation of Investments

Investments are recorded at fair value. Security transactions are accounted for as of the trade date. Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned.

Participant Loans

Participant loans are measured at their unpaid principal balance plus any accrued but unpaid interest, and participant loans deemed distributed due to default are included in benefits paid to participants on the statements of changes in net assets available for benefits.

NOTE 2 — PARTICIPANT LOANS

Participants may borrow from their accounts up to a maximum equal to the lesser of (a) 50 percent of the vested account balance; or (b) \$50,000, reduced by: (1) the current outstanding balance of all other loans from the Plan, and (2) the excess (if any) of all Plan loans during the previous 12 months over the current outstanding balance of Plan loans. The minimum amount that a participant can borrow is \$500.

Loan terms range from one to five years for General Loans or up to 15 years for Primary Residence Loans. Participants may not have more than two loans outstanding at any point in time. The loans are secured by the balance in the participant's account and bear interest at one percent over the prime rate, determined on a monthly basis. Principal and interest are paid ratably through payroll deductions, made each pay period for the scheduled amount. If a participant terminates employment with the Sponsors, the loan balance is settled at the time of the distribution of the participant's vested interest in his or her account; however, the participant may pay off the outstanding loan balance prior to the distribution. As of December 31, 2016, outstanding participant loans have maturities with various dates through 2038, bearing interest ranging from 4.25 percent to 4.50 percent.

NOTE 3 — TAX STATUS

The Puerto Rico Treasury Department has determined and informed the Plan's management by a letter dated June 2, 2014, that the Plan is qualified as a tax-exempt plan under the appropriate sections of the PRIRC. The determination letter covered Plan amendments adopted through April 1, 2013. The Plan Administrator believes that the Plan is currently designed and operated in compliance with the applicable requirements of the PRIRC. Therefore, the Plan is tax-exempt as of the financial statement date and no provision for income taxes has been recorded in the financial statements.

NOTE 4 — PARTY-IN-INTEREST TRANSACTIONS

Exempt Party-In-Interest Transactions

Microsoft Corporation is the parent company of the Sponsors. Accordingly, transactions in Microsoft Common Stock qualify as exempt party-in-interest transactions. As of December 31, 2016 and 2015, the Plan held 36,401 shares of Microsoft Common Stock valued at \$2,261,958 and 40,524 shares valued at \$2,300,731, respectively. During the years ended December 31, 2016 and 2015, the Plan recorded Microsoft Common Stock dividend income of \$57,848 and \$53,264, respectively.

Nonexempt Party-In-Interest Transactions

The Plan remitted various participant contributions to the trustee later than required by the Department of Labor Regulation 2510.3-102. This regulation requires remittances to be made within three business days; however, in certain instances the remittances took four days or longer. To remediate these late remittances, the impacted participant accounts were credited by an amount representing investment income that would have been earned had the participant contributions been remitted on a timely basis. For 2013 through 2015, late contributions of \$1,007,344 were made, of which \$864,530 were remediated in 2016 and \$142,814 were remediated in 2017, resulting in credits to participant accounts of \$1,346 in 2016 and \$40 in 2017. During the first half of 2016 there were late contributions totaling \$481,364, of which \$478,050 were remediated in 2016 and \$3,314 were remediated in 2017, resulting in credits to participant accounts of \$321 in 2016 and \$1 in 2017.

NOTE 5 — FINANCIAL INSTRUMENTS

The Plan accounts for certain assets 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. The Plan categorizes each of its 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. The Plan's Level 1 investments primarily include actively traded mutual funds and Microsoft common stock.
- 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 and commodities. As of December 31, 2016 and 2015, the Plan did not hold any financial instruments categorized as Level 2.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. As of December 31, 2016 and 2015, the Plan did not hold any financial instruments categorized as Level 3.

The Plan holds cash equivalents that are valued using the Net Asset Value ("NAV") provided by the trustee in order to estimate fair value. Cash equivalents are held primarily in a short-term money market funds that are registered with the Securities and Exchange Commission. These funds primarily invest in short-term U.S. Treasury obligations. The Plan's money market funds are valued using the NAV provided by the trustee in order to estimate fair value. The money market fund prices its units at NAV on a daily basis and the NAV is maintained at \$1 a unit. The interests in the money market fund are currently redeemable at NAV on a daily basis.

[Table of Contents](#)

Financial Instruments Measured at Fair Value

| December 31, 2016 | Level 1 | Total |
|----------------------------------|----------------------|----------------------|
| Mutual funds | \$ 13,537,055 | \$ 13,537,055 |
| Microsoft Common Stock | 2,261,958 | 2,261,958 |
| Time deposits | 2,522 | 2,522 |
| Total | \$ 15,801,535 | 15,801,535 |
| Cash equivalents measured at NAV | | 693,737 |
| Total Investments | | \$ 16,495,272 |

| December 31, 2015 | Level 1 | Total |
|----------------------------------|----------------------|----------------------|
| Mutual funds | \$ 10,683,776 | \$ 10,683,776 |
| Microsoft Common Stock | 2,300,731 | 2,300,731 |
| Time deposits | 235,947 | 235,947 |
| Total | \$ 13,220,454 | 13,220,454 |
| Cash equivalents measured at NAV | | 933,257 |
| Total Investments | | \$ 14,153,711 |

NOTE 6 — RELATED PARTY TRANSACTIONS

Certain general and administrative expenses are paid by the Sponsors on behalf of the Plan. During the years ended December 31, 2016 and 2015, these expenses amounted to \$54,775 and \$52,028, respectively.

NOTE 7 — SUBSEQUENT EVENTS

Subsequent events were evaluated through June 22, 2017, the date the financial statements were issued.

Late contributions of \$146,128 from 2015 and 2016 were corrected in 2017, which resulted in earnings of \$41 that were credited to participant accounts in 2017. See Note 4 — Party-In-Interest Transactions for additional details.

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN

Employer ID No: 98-0459037, Plan No: 001
SUPPLEMENTAL SCHEDULE OF ASSETS HELD AT END OF YEAR
AS OF DECEMBER 31, 2016

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment, Including Maturity Date and Rate of Interest | Cost** | Current Value |
|---|---|--------|----------------------|
| T Rowe Price Retirement 2030 Fund - Advisor Class | Registered Investment Company | | \$ 3,166,122 |
| Microsoft Corporation * | Common Stock | | 2,261,958 |
| T Rowe Price Retirement 2040 Fund - Advisor Class | Registered Investment Company | | 2,175,394 |
| T Rowe Price Retirement 2020 Fund - Advisor Class | Registered Investment Company | | 1,693,389 |
| T Rowe Price Growth Stock Fund - Advisor Class | Registered Investment Company | | 1,453,290 |
| Vanguard Windsor II Fund Investor Shares | Registered Investment Company | | 1,417,176 |
| BlackRock Total Return Fund | Registered Investment Company | | 1,339,322 |
| Federated Trust for U.S. Treasury Obligations Fund - Institutional Shares | Registered Investment Company | | 693,737 |
| JP Morgan U.S. Small Company Fund | Registered Investment Company | | 643,048 |
| T Rowe Price Retirement 2010 Fund - Advisor Class | Registered Investment Company | | 457,883 |
| Franklin Mutual Global Discovery Fund - Class A | Registered Investment Company | | 426,653 |
| T Rowe Price Retirement 2050 Fund - Advisor Class | Registered Investment Company | | 405,664 |
| Fidelity Advisor Equity Growth Fund I | Registered Investment Company | | 230,544 |
| MFS Research International Fund - Class A | Registered Investment Company | | 112,007 |
| T Rowe Price Retirement Balanced Fund - Advisor Class | Registered Investment Company | | 16,563 |
| Banco Popular de Puerto Rico * | Time deposits and bank deposits, bearing interest of 0.75% as of December 31, 2016 | | 2,522 |
| Various participants * | Participant loans (maturing through 2038 at interest rates ranging from 4.25% to 4.50%) | | 608,590 |
| Total | | | <u>\$ 17,103,862</u> |

* *Party-in-interest*

** *Information not presented because investments are participant-directed*

See accompanying Report of Independent Registered Public Accounting Firm.

ONE MICROSOFT PUERTO RICO RETIREMENT PLAN
Employer ID No: 98-0459037, Plan No: 001
SUPPLEMENTAL SCHEDULE OF DELINQUENT PARTICIPANT CONTRIBUTIONS
AS OF DECEMBER 31, 2016

| | <u>Total That Constitute Nonexempt Prohibited Transactions</u> | | | Total Fully Corrected VFCP and PTE 2002-51 |
|--|--|--------------------------------------|--|--|
| | Contributions Not Corrected | Contributions Corrected Outside VFCP | Contributions Pending Correction in VFCP | |
| Participant contributions transferred late to the Plan | \$ - | \$ 864,530 * | \$ 146,128 ** | \$ 478,050 *** |

* Represents delinquent participant contributions from 2013 through 2015. The Plan Sponsor remitted lost earnings in 2016.

** Represents delinquent participant contributions from 2015 through 2016. The Plan Sponsor remitted lost earnings in 2017.

*** Represents delinquent participant contributions from 2016. The Plan Sponsor remitted lost earnings in 2016.

See accompanying Report of Independent Registered Public Accounting Firm

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-109185 on Form S-8 of our report dated June 22, 2017, relating to the financial statements and supplemental schedules of One Microsoft Puerto Rico Retirement Plan appearing in this Annual Report on Form 11-K of One Microsoft Puerto Rico Retirement Plan for the year ended December 31, 2016.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington
June 22, 2017