

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE TO**

**TENDER OFFER STATEMENT  
UNDER RULE 13e-4, SECTION 13(e) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**MICROSOFT CORPORATION**

(Name of Subject Company (Issuer) and Filing Person (Offeror))

Employee Stock Options to Purchase Common Stock, Par Value \$0.00000625 Per Share,  
Having an Exercise Price Equal to or Greater Than \$33.00 Per Share

Share Appreciation Rights,  
Having a Grant Date Value Equal to or Greater Than \$33.00 Per Share  
(Title of Class of Securities)

**594918104**

(CUSIP Number of Class of Securities)  
(Underlying Common Stock)

**John Seethoff  
Deputy General Counsel, Finance & Operations  
Microsoft Corporation  
One Microsoft Way  
Redmond, Washington 98052-6399  
(425) 882-8080**

(Name, Address, and Telephone Number, of Person Authorized to Receive Notices and Communications  
on Behalf of Filing Persons)

*Copies to:*

**Richard B. Dodd  
Preston Gates & Ellis LLP  
925 Fourth Avenue Suite 2900  
Seattle, Washington 98104  
(206) 623-7580**

**Calculation of Filing Fee**

**Transaction valuation\***

**Amount of filing fee**

\$1,209,758,657

\$97,869

\* Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 623,577,566 shares of common stock of Microsoft Corporation having an aggregate value of \$1,209,758,657 as of October 14, 2003, will be tendered by eligible Microsoft employees into the Stock Option Transfer Program. The aggregate value of such options was calculated using \$28.625, which was the average of the high and low per share price of Microsoft's common stock as reported on the Nasdaq National Market on October 14, 2003, and based on the pricing structure determined by Microsoft for any of a range of anticipated average prices of Microsoft common stock over an averaging period, such pricing structure for any given average price of Microsoft common stock generating a specific price for each option with the same exercise price per share and the same expiration date (as amended in accordance with the Stock Option Transfer Program). The amount of the filing fee, calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934, as amended, equals \$80.90 per million dollars of the value of the transaction.

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:

Not applicable.

Form or Registration No.:

Not applicable.

Filing party:

Not applicable.

Date filed:

Not applicable.

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- third party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the box if the filing is a final amendment reporting the results of the tender offer.

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**Item 1. Summary Term Sheet.**

The information set forth in Section I (“Summary Term Sheet”) of the Notice to Eligible Employees of Stock Option Transfer Program, dated October 15, 2003 (the “Notice”), attached hereto as Exhibit (a)(1), is incorporated herein by reference.

**Item 2. Subject Company Information.**

**NAME AND ADDRESS.** The name of the subject company and issuer is Microsoft Corporation (“Microsoft”), with its principal executive offices at One Microsoft Way, Redmond, Washington 98052-6399, and telephone number (425) 882-8080. The information set forth in Section II.12. (“Information About Microsoft”) of the Notice is incorporated herein by reference.

**SECURITIES.** The information set forth under “Eligible Options” in Section II.1. (“Eligibility; Requirement To Transfer All Or None; Election Period; Agreement To Amendment; Other Amendments; Transfer Of Title; Other Definitions”) of the Notice is incorporated herein by reference.

**TRADING MARKET AND PRICE.** The information set forth in Section II.10. (“Price Range Of Microsoft Common Stock”) of the Notice is incorporated herein by reference.

**Item 3. Identity and Background of Filing Person.**

The filing person is the subject company.

**Item 4. Terms of the Transaction.**

**MATERIAL TERMS.** The information set forth in the following sections of the Notice is incorporated herein by reference:

Section II.1.	Eligibility; Requirement To Transfer All Or None; Election Period; Agreement To Amendment; Other Amendments; Transfer Of Title; Other Definitions;
Section II.2.	Valuation Of Options; Average Closing Price; Valuation Based on Possible Average Closing Prices;
Section II.3.	Payment For Eligible Options Transferred; Foreign Jurisdictions;
Section II.5.	Procedures;
Section II.6.	Withdrawal Of Election To Participate;
Section II.7.	Extension Of Election Period; Reduction Of Averaging Period;
Section II.8.	Stock Option Transfer Program Conditions And Termination Events;
Section II.9.	Role Of JPMorgan In The Program; Hedging Activities Conducted By JPMorgan; Arrangements With JPMorgan;
Section II.11.	Source And Amount Of Consideration
Section II.13.	Interests Of Directors And Officers; Transactions And Arrangements;
Section II.15.	Material U.S. Federal Income And Other Tax Consequences; and
Section II.16.	Material Tax Consequences For Jurisdictions Outside The United States.

**PURCHASES.** The information set forth in Section II.13. (“Interests of Directors And Officers; Transactions And Arrangements”) of the Notice is incorporated herein by reference.

**Item 5. Past Contacts, Transactions, Negotiations and Arrangements.**

AGREEMENTS INVOLVING THE SUBJECT COMPANY'S SECURITIES. The information set forth in Section II.8. ("Stock Option Transfer Program Conditions And Termination Events") Section II.9. ("Role Of JPMorgan In The Program; Hedging Activities Conducted By JPMorgan; Arrangements With JPMorgan") and Section II.13. ("Interests of Directors and Officers; Transactions and Arrangements") of the Notice is incorporated herein by reference.

**Item 6. Purposes of the Transaction and Plans or Proposals.**

PURPOSES. The information set forth in Section II.4. ("Purpose Of The Program") of the Notice is incorporated herein by reference.

USE OF SECURITIES ACQUIRED. The information set forth in Section II.14. ("Status Of Eligible Options Transferred; Accounting Consequences To Microsoft Of The Program") and Section II.12. ("Information About Microsoft, Including Summary Financial Information") of the Notice is incorporated herein by reference.

PLANS. The information set forth in Section II.9. ("Role Of JPMorgan In The Program; Hedging Activities Conducted By JPMorgan; Arrangements With JPMorgan") and Section II.12. ("Information About Microsoft, Including Summary Financial Information") of the Notice is incorporated herein by reference.

**Item 7. Source and Amount of Funds or Other Consideration.**

SOURCE OF FUNDS. The information set forth in Section II.11. ("Source And Amount Of Consideration") of the Notice is incorporated herein by reference.

CONDITIONS. The information set forth in Section II.7. ("Extension Of Election Period; Reduction Of Averaging Period") and Section II.8. ("Stock Option Transfer Program Conditions And Termination Events") of the Notice is incorporated herein by reference.

**Item 8. Interest in Securities of the Subject Company.**

SECURITIES OWNERSHIP. The information set forth in Section II.13. ("Interests Of Directors And Officers; Transactions And Arrangements") of the Notice is incorporated herein by reference.

SECURITIES TRANSACTIONS. The information set forth in Section II.13. ("Interests Of Directors And Officers; Transactions and Arrangements") of the Notice is incorporated herein by reference.

**Item 9. Person/Assets, Retained, Employed, Compensated or Used.**

SOLICITATIONS OR RECOMMENDATIONS. Neither Microsoft nor its board of directors makes any recommendation as to whether employees should participate in the Stock Option Transfer Program. Microsoft has not employed anyone, directly or indirectly, to make any solicitation or recommendation in connection with the Stock Option Transfer Program.

**Item 10. Financial Statements.**

SUMMARY FINANCIAL INFORMATION. The information set forth in Section II.12. (“Information About Microsoft, Including Summary Financial Information”) of the Notice and Item 8 (“Financial Statements and Supplementary Data”) of Microsoft’s Form 10-K, filed with the SEC on September 5, 2003, are incorporated herein by reference.

**Item 11. Additional Information.**

The information set forth in Section II.15. (“Legal Matters; Regulatory Approvals”) of the Notice, and in the Notice in general, is incorporated herein by reference.

**Item 12. Exhibits.**

Exhibit Number	Description
(a)(1)	Notice to Eligible Employees of Stock Option Transfer Program, dated October 15, 2003.
(2)	Employee Election Tool website pages.
(3)	Election Form.
(4)	Withdrawal Form.
(5)	Cover letter sent to employees receiving Notice in paper copy.
(6)	Microsoft Stock Services and Human Resources communication materials for use on or after October 15, 2003. <ul style="list-style-type: none"><li>(i) Stock Option Transfer Program Guide</li><li>(ii) Understanding the Stock Option Transfer Program</li><li>(iii) Factors To Consider</li><li>(iv) Stock Option Transfer Program Resources and Assistance</li><li>(v) Defined Terms Used in the Employee Election Tool</li><li>(vi) List identifying countries in which Stock Option Transfer Program proceeds will be paid through local payroll and in which proceeds will be paid through Mellon Investor Services</li></ul>
(7)	Microsoft press release dated July 8, 2003, relating to employee compensation.
(8)	Email communication from Steve Ballmer to Microsoft employees on July 8, 2003, relating to compensation.
(9)	Email communication to Microsoft partners 68+ on October 13, 2003, relating to Stock Option Transfer Program.
(10)	Email communication to Microsoft employees on October 15, 2003, relating to commencement of Stock Option Transfer Program.
(11)	Email communication to Microsoft employees eligible to participate in Stock Option Transfer Program on October 15, 2003.
(d)(1)	Registration Agreement between Microsoft Corporation, J.P. Morgan Securities Inc. and JP Morgan Chase Bank dated October 9, 2003.
(2)	Engagement Letter between Microsoft Corporation and J.P. Morgan Securities Inc. dated October 9, 2003.
(3)	Program Agreement between Microsoft Corporation and JPMorgan Chase Bank, dated October 9, 2003.
(4)	Form of Call Option Transaction Confirmation to be entered into between Microsoft Corporation and JPMorgan Chase Bank.
(5)	Microsoft Corporation 2001 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.1 to Microsoft Corporation’s Annual Report on Form 10-K for the Fiscal Year Ended June 30, 2003, filed with the Securities Exchange Commission on September 5, 2003).

- (6) Microsoft Corporation 1991 Stock Option Plan, as amended (incorporated herein by reference to Exhibit 10.1 to Microsoft Corporation's Annual Report on Form 10-K for the Fiscal Year Ended June 30, 1997, filed with the SEC on September 29, 1997).
- (7) Microsoft Corporation 1997 Share Appreciation Rights Plan.
- (8) Visio Corporation 1990 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Visio Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 1997, filed with the SEC on December 24, 1997).
- (9) Visio Corporation 1995 Long-Term Incentive Compensation Plan, as amended (incorporated herein by reference to Exhibit 99.1 to Visio Corporation's Post Effective Amendment No. 1 to Form S-8, filed with the SEC on June 18, 1998).

**Item 13. Information Required by Schedule 13E-3.**

Not applicable.

**SIGNATURES**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Schedule TO is true, complete and correct.

**MICROSOFT CORPORATION**

By: /s/ JOHN G. CONNORS

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John G. Connors  
Senior Vice President, Chief Financial  
Officer (Principal Financial and  
Accounting Officer)

Date: October 15, 2003.

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MICROSOFT CORPORATION

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NOTICE TO ELIGIBLE EMPLOYEES OF STOCK OPTION TRANSFER PROGRAM

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**The Election Period for the Stock Option Transfer Program will end at  
Midnight New York City/Eastern Time on Wednesday, November 12, 2003**

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Microsoft Corporation is making available to Eligible Employees the opportunity to realize some value for certain out-of-the-money employee stock options through a stock option transfer program that Microsoft has developed with JPMorgan Chase Bank and its affiliates. Participation in the Stock Option Transfer Program is completely voluntary. If you choose not to participate, you will keep your options with their current terms and conditions.

To make an informed decision about whether to participate, you should carefully review the information in this Notice and evaluate the data about your own options via the “**Employee Election Tool**” available on our internal online stock compensation web tool on <https://stock> under the Option Transfer tab. Additionally, you may want to consult with your financial, tax, legal or other advisors. If you do not have access to the Employee Election Tool, you should contact us at (425) 706-8853 or send email to [compchg@microsoft.com](mailto:compchg@microsoft.com).

**You have until Midnight New York City/Eastern Time on Wednesday, November 12, 2003 (such time, as it may be extended, is the Election Deadline) to submit your election by any of the methods outlined in Section 5 of the section of this Notice entitled “Terms and Conditions.”**

If you elect to participate in the Stock Option Transfer Program, you must transfer all of your Eligible Options. If you elect not to participate, your existing Eligible Options will remain outstanding on their current terms and conditions. Any options you hold that are not Eligible Options will remain outstanding on their current terms and conditions regardless of whether you participate in the Stock Option Transfer Program.

**If you elect to participate in the Stock Option Transfer Program, you may not revoke your election after the Election Deadline. If you wish to withdraw your election to participate, you must do so prior to the Election Deadline as specified in Section 6 of the Terms and Conditions. The price of our stock may decline after your election has become irrevocable, which would cause you to receive a lower price for your options than you would have received if the stock price had not declined. We do not expect to and have no right to terminate the program based on changes in the price of our stock after the Election Deadline.**

**In addition, consummation by Microsoft of the Stock Option Transfer Program, including the acceptance of Eligible Options by Microsoft, is subject to the satisfaction or waiver of several conditions, not all of which will be satisfied or waived prior to the Election Deadline, including those described in Section 8 of the Terms and Conditions. Certain conditions will not be satisfied or waived until after the Election Deadline. If the conditions to the Stock Option Transfer Program are not satisfied or waived, the Stock Option Transfer Program may be terminated, in which case you will retain all of your Eligible Options on their current terms and conditions, the transfer of your Eligible Options will be rescinded and you will not be paid for any Eligible Options, regardless of whether you elected to participate in the Stock Option Transfer Program. The latest date by which we will either complete or terminate the Program is March 24, 2004.**

Throughout this Notice, “Microsoft,” “Company,” “we,” “us” and “our” refer to Microsoft Corporation. “JPMorgan” refers to JPMorgan Chase Bank or its affiliates.

## ELIGIBILITY

To be eligible to participate in the Stock Option Transfer Program, you must:

- be an employee of Microsoft or its subsidiaries (advisors and consultants are *not* eligible employees nor are members of Microsoft's Board of Directors) throughout the Election Period up to and including the Election Deadline, who is not employed in Belgium, Italy, or Pakistan; and
- hold Eligible Options, which are vested and unvested stock options, incentive stock options and share appreciation rights, that:
  - are outstanding from the first day of the Election Period up to and including the Election Deadline;
  - were granted under the Microsoft 1991 Stock Option Plan, the Microsoft 2001 Stock Plan, the employee stock option plans that Microsoft assumed in connection with Microsoft's acquisition of Visio Corporation, or the 1997 Share Appreciation Rights Plan;
  - have an exercise price per share (or in the case of a share appreciation right, a grant date value) equal to or greater than \$33.00; and
  - expire on or after February 29, 2004.

You may view a complete list of your Eligible Options via the Employee Election Tool.

## PRICING

**Pricing.** The Total Payment will be determined based on the actual Average Closing Price of Microsoft's common stock over an Averaging Period that will start no later than the first business day following the second calendar day after the Election Deadline and is scheduled to end 15 trading days later. More details on the Averaging Period and other, more general factors that influenced pricing are provided in Section 2 of the Terms and Conditions.

**Estimating the Total Payment.** You may determine the Total Payment using a range of possible Average Closing Price scenarios provided in the Employee Election Tool. **Because the actual Total Payment will be determined based on the actual Average Closing Price of our stock after your election is final, you will not know the amount of the Total Payment when you are required to make your decision whether to participate.**

## PAYMENT SCHEDULE

If you are eligible and you elect to participate in the Stock Option Transfer Program, the timing of the Initial Payment and Contingent Payment(s) will depend on the amount of the Total Payment and, as of the Election Deadline, your Employee Level and the country in which you are employed. There are different payment schedules for different countries. A summary of the schedule of payments expected to be made follows, based on country of employment as of the Election Deadline. No interest equivalent will be paid on Initial Payments under any circumstances.

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*For all Eligible Employees except those employed in Australia, Canada, Czech Republic, Denmark, Finland, Germany, Hungary, India, Japan, Netherlands, Poland, Singapore, Spain, Trinidad & Tobago or Venezuela:*

**Expected Payment Schedule (% is of Total Payment)**

**And if you are continuously employed by Microsoft:**

If amount of the Total Payment is:	And if your Employee Level at the Election Deadline is:	Through the Election Deadline,	Throughout the two years from the last day of the Averaging Period,	Throughout the three years from the last day of the Averaging Period,
		Then, expected distribution no later than December 31, 2003:	Then, expected distribution no later than December 31, 2005:	Then, expected distribution no later than December 31, 2006:
		Initial Payment	First Contingent Payment Plus Interest Equivalent	Second Contingent Payment Plus Interest Equivalent
\$20,000 or less	Any	100%	N/A	N/A
\$20,000.01 or more	Levels 54-67	Greater of 33.33% or \$20,000	Remainder plus interest equivalent	N/A
	Levels 68+	Greater of 33.33% or \$20,000	50% of the remainder plus interest equivalent for this payment	The remaining amount plus interest equivalent for this payment

***For Eligible Employees employed in Czech Republic, Finland, Hungary, Poland, or Trinidad & Tobago:***

Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

***For Eligible Employees employed in Australia, Canada, Denmark, India, Spain, or Venezuela:***

Employees at Level 67 or below as of the Election Deadline: Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

Employees at Level 68 or above as of the Election Deadline: The Initial Payment will be a portion of the Total Payment equal to (1) the sum of (a) the top marginal income tax rate in the country in which you are employed expressed as a percentage and (b) 18%, multiplied by (2) the Total Payment. The first Contingent Payment, which we intend to pay no later than December 31, 2005, will be one-half of the remainder of the Total Payment. The second Contingent Payment, which we intend to pay no later than December 31, 2006, will be the other half of the remainder. The Contingent Interest Payment(s) will be based on the Contingent Payments as described in Section 2 of the Terms and Conditions.

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### ***For Eligible Employees employed in Germany, Japan, Netherlands, or Singapore:***

As of the date of this Notice, the tax authorities have not provided guidance on the applicable tax treatment for your participation in the Program.

**Payment Schedule If Favorable Tax Treatment:** If the tax authorities confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the generally applicable payment schedule for all Eligible Employees, provided in the table above.

**Payment Schedule If Unfavorable Tax Treatment:** If the tax authorities do not confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the payment schedule for Eligible Employees employed in Australia, Canada, Denmark, India, Spain or Venezuela, provided above.

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The payment schedules described above assume that Microsoft will be able to make the Initial and Contingent Payment(s) on the next administratively feasible payroll date after the scheduled closing of the Stock Option Transfer Program and the scheduled vesting dates. We intend to make the payment before the end of the applicable calendar year.

Microsoft reserves the right to accelerate one or more of the payment schedules if there is an adverse tax ruling or other regulatory action that would, in Microsoft's judgment taking into account the best interest of the affected employees, make it appropriate to accelerate the payment schedule.

All payments will be made to you less the appropriate tax withholding by the Company and similar deductions that we determine are required.

No interest equivalent will be paid on Initial Payments. During the vesting period for each Contingent Payment, we will credit the Contingent Payment account in an amount equivalent to interest earned monthly on each unpaid Contingent Payment at the three-month U.S. Treasury bill yield adjusted for a constant maturity, compounded monthly on an actual 365 day basis. This interest equivalent amount will be calculated using the period from the date JPMorgan is obligated to pay us for the transferred options (currently expected to be the third business day after the end of the Averaging Period) through the date on which the Contingent Payment vests. This Contingent Interest Payment will be subject to the vesting period(s) applicable to you so that it will only be made if and when the Contingent Payment is made.

### **PARTICIPATION INSTRUCTIONS**

If you wish to participate in the Stock Option Transfer Program, **you must submit your election to participate by Midnight New York City/Eastern Time on Wednesday, November 12, 2003**, using the following instructions (including, if applicable, additional instructions on a paper copy of the Election Form). Eligible Employees who are on leave of absence will be sent a paper election packet with instructions about how to submit an election.

We have two different election procedure requirements, depending on the country in which you are employed.

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If you are employed in the United States or any other country not listed in the next paragraph, you will be able to submit your election to participate:

- by following the instructions to make your election to participate in the Employee Election Tool on <https://stock> under the Option Transfer tab,
- OR
- by faxing or mailing your completed paper copy of the Election Form, marked to indicate your election to participate, to Mellon Investor Services at (201) 329-8456 or to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.” Forms may be requested by contacting Microsoft Stock Services at (425) 706-8853 or by email at [compchg@microsoft.com](mailto:compchg@microsoft.com).

The same procedures are used to withdraw an election to participate except that, if you do not use the Employee Election Tool to withdraw your election to participate, you will need to mark the Withdrawal Form to indicate your withdrawal.

If you are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay and you make your election to participate through the Employee Election Tool, you will be required to submit your election to participate by completing a two-step process:

- (1) elect to participate online through the Employee Election Tool on <https://stock> under the Option Transfer tab, and then
- (2) print and return a signed copy of your form (which will be presented to you via the Employee Election Tool) to Mellon Investor Services by facsimile to (201) 329-8456 or by mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.”

**In order for your election to be valid, Mellon Investor Services must RECEIVE your signed Election Form by the Election Deadline.**

Regardless of the country in which you are employed, if you are an Eligible Employee who is on leave of absence, you will be sent a paper election packet with instructions about how to elect to participate. You may either fax or mail your completed paper copy of the Election Form, marked to indicate your election to participate, to Mellon Investor Services in time to arrive by the Election Deadline. However, as an Eligible Employee on leave (other than in the countries listed above), you may also elect to participate or to withdraw from participation using the Employee Election Tool by following the procedures set forth above and in Sections 5 and 6 of the Terms and Conditions.

**Submission of your election by any other method will NOT be accepted. You may change your election by properly submitting an election to participate or to withdraw from participation until the Election Deadline. After this deadline, no elections to participate or to withdraw will be accepted.**

If you submit your election to participate via the Employee Election Tool, unless you are employed in one of the countries where you are required to submit your election by completing the two-step process referred to above, you will promptly receive a confirmation through the tool. We recommend you print a copy of this confirmation for your records. If you are employed in one of the countries where you are required to complete the two-step process, your participation status will be reflected in the Employee Election Tool, and you will be sent an email confirmation when your submitted election is complete and has been recorded in our system.

**SOME FACTORS TO CONSIDER**

**None of Microsoft, Microsoft's Board of Directors or JPMorgan makes any recommendation as to whether you should participate in this Stock Option Transfer Program.**

In making your decision, you may want to consider the factors related to the likelihood of your continued employment at Microsoft through any required vesting period, your personal situation, the price of our common stock and Microsoft's business prospects. These factors are discussed in detail in Question 24 of the Summary Term Sheet.

You should rely only on the information contained in this Notice or in our financial statements filed with the SEC. Microsoft has not authorized anyone to provide you with information different from that contained in this Notice or in the Employee Election Tool. We are making available to Eligible Employees the opportunity to participate in the Stock Option Transfer Program only in jurisdictions where we believe the Stock Option Transfer Program would be in compliance with the law. The information contained in this Notice is accurate only as of the date of this Notice, regardless of the time of delivery of this Notice to you.

If you have questions about the Stock Option Transfer Program or would like to request paper copies of this Notice, the Election and Withdrawal forms and other materials distributed to Eligible Employees, you may call (425) 706-8853 or email [compchng@microsoft.com](mailto:compchng@microsoft.com).

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## I. SUMMARY TERM SHEET

The following are answers to some of the questions you may have about this Stock Option Transfer Program (which we sometimes refer to as the “**Program**”). We urge you to read carefully all of this Notice and the information provided in the Employee Election Tool (and, if applicable, the instructions on the paper copy of the Election Form) to familiarize yourself with full details of the Program. The information in this summary is not complete. Additional important information is contained in the remainder of this Notice, the Employee Election Tool, and the other Stock Option Transfer Program documents. We have included references to the relevant sections of the Terms and Conditions (which you will find immediately following this Summary Term Sheet) where you may find a more complete description of the topics in this summary. All capitalized terms are defined terms, and the location(s) of their definitions in this Notice are provided in the Index of Defined Terms following the Terms and Conditions.

### Q1. What is the Stock Option Transfer Program?

The Stock Option Transfer Program is a program intended to allow you to transfer all (but no less than all) of your Eligible Options in exchange for a Total Payment in cash, at least 33.33% of which will be paid upfront and the remainder of which will be paid to you later, subject to vesting. If you elect to participate in the Stock Option Transfer Program, your Eligible Options will be transferred under the Stock Option Transfer Program to JPMorgan and JPMorgan will make payment to us. For all Eligible Employees except those employed in Australia, Canada, Czech Republic, Denmark, Finland, Germany, Hungary, India, Japan, Netherlands, Poland, Singapore, Spain, Trinidad & Tobago or Venezuela, the following payment schedule applies. If the Total Payment to you is \$20,000 or less, you will receive 100% of the Total Payment upfront. If the Total Payment exceeds \$20,000, you will be paid upfront the greater of (i) 33.33% of the Total Payment, or (ii) \$20,000, and the remainder will be paid in one or more Contingent Payments, subject to vesting, as described below and in Sections 1 and 3 of the Terms and Conditions. For all Eligible Employees in Australia, Canada, Czech Republic, Denmark, Finland, Germany, Hungary, India, Japan, Netherlands, Poland, Singapore, Spain, Trinidad & Tobago or Venezuela, see Sections 1 and 3 of the Terms and Conditions. If you are employed at Employee Level 68 or above as of the Election Deadline and your Total Payment exceeds \$20,000, you will have two Contingent Payments payable to you, subject to vesting (“**Employee Level**” being a term used internally by Microsoft). Your participation in the Stock Option Transfer Program is completely voluntary.

### Q2. What is the purpose of the Program?

We believe that our greatest asset is our employees, and we are committed to providing competitive compensation packages. To keep our employees motivated and committed to the future of our Company, we developed this opportunity for employees to realize value in cash for certain outstanding employee stock options with exercise prices at or above \$33.00 per share.

### Q3. Am I eligible to participate in the Program?

To be eligible to participate in the Stock Option Transfer Program, you must be an Eligible Employee. An “**Eligible Employee**” is a person who holds Eligible Options, is an employee of Microsoft or one of its subsidiaries (including a part-time employee or an employee on leave of absence) during the entire Election Period, up to and including the Election Deadline, and is not employed in Belgium, Italy, or Pakistan. Advisors, consultants and members of the Microsoft Board of Directors are not Eligible Employees.

### Q4. Are Eligible Employees required to participate in the Program?

No, participation in the Stock Option Transfer Program is completely voluntary.

**Q5. Which options may I transfer?**

You may transfer all of your options or share appreciation rights (“**Eligible Options**”) that:

1. are vested and unvested stock options, incentive stock options, or share appreciation rights;
2. are outstanding from the first day of the Election Period up to and including the Election Deadline;
3. were granted under the Microsoft 1991 Stock Option Plan, the Microsoft 2001 Stock Plan, the employee stock option plans, that Microsoft assumed in connection with Microsoft’s acquisition of Visio Corporation, or the 1997 Share Appreciation Rights Plan;
4. have an exercise price per share (or in the case of a share appreciation right, a grant date value) equal to or greater than \$33.00; and
5. expire on or after February 29, 2004.

Some employees who joined Microsoft in connection with Microsoft’s acquisition of Navision a/s continue to hold options and/or warrants exercisable for Navision shares. These options and warrants are not Eligible Options.

**Q6. How is the price of my Eligible Options determined?**

The pricing of every Eligible Option at every possible Average Closing Price was determined by negotiations between Microsoft and JPMorgan. The “**Total Payment**” for your Eligible Options will be determined using this negotiated pricing for your Eligible Options based on the actual Average Closing Price and will be the sum of the Initial Payment and all Contingent Payments, if any, for your Eligible Options transferred. The “**Average Closing Price**” means the arithmetic average (rounded up to the nearest 1/10,000 of a dollar) of the closing price of our common stock for every Available Trading Day during the Averaging Period. The “**Averaging Period**” means the period beginning no later than the first business day following the second calendar day after the Election Deadline and ending on and including the earlier of (i) Monday, December 15, 2003 or (ii) the 15<sup>th</sup> consecutive Available Trading Day. An “**Available Trading Day**” means a trading day on which (a) there is no market disruption, (b) Microsoft’s registration statement is available (pursuant to the terms of our agreements with JPMorgan) to be used by JPMorgan in connection with JPMorgan’s hedging activities (described below in Question 17 and in Section 10 of the Terms and Conditions), and (c) if JPMorgan so requests, we or our counsel has delivered a statement to JPMorgan regarding the availability of such registration statement. If the Averaging Period consists of five (5) or fewer Available Trading Days, then the Stock Option Transfer Program will be terminated, in which case you will retain all of your Eligible Options on their current terms and conditions, the transfer of your Eligible Options will be rescinded and you will not be paid for any Eligible Options, regardless of whether you elected to participate in the Stock Option Transfer Program.

**Q7. How can I find out how much I will receive?**

You will be able to determine the Total Payment that you may receive for your Eligible Options based on possible Average Closing Prices by referring to the “**Employee Election Tool**” available on our internal online stock compensation web tool on <https://stock> under the Option Transfer tab. You may use a table in the tool to determine the Total Payment for your Eligible Options based on the range of possible Average Closing Prices shown in the table. The tool also has a calculator for determining the Total Payment for your Eligible Options for every possible Average Closing Price that you specify, up to \$40 per share (such information available on the table and through the calculator together will be referred to as the “**Pricing Information**”). If you do not have access to the Employee Election Tool, you may contact Microsoft Stock Services at (425) 706-8853 for assistance in obtaining the Pricing Information for your Eligible Options.

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All amounts stated in this Notice are stated in U.S. dollars. If you are employed outside the United States, any payments made to you will be converted from U.S. dollars to your local payroll currency. If your payment is made through our payroll process, the conversion will use Microsoft's daily foreign exchange rate. If your payment is made directly to you outside of the payroll process, the conversion will use the market spot exchange rate on the date the payment is processed.

The Total Payment for your Eligible Options will be determined based on the actual Average Closing Price determined after the end of the Averaging Period, which may be lower than the closing price of our common stock at the Election Deadline. Therefore, it is possible that you will receive a lower price for your Eligible Options than you would have received if the price were based on the closing price of our common stock at the time your election becomes irrevocable.

### **Q8. Why can't I know for certain the pricing of my Eligible Options before the Election Deadline? Why is there an Averaging Period?**

In designing the pricing mechanism for the Program, we have sought to obtain optimal pricing for your Eligible Options. As described in Section 9 of the Terms and Conditions, in order to provide improved pricing for transferred Eligible Options, JPMorgan will hedge its financial risk of owning the options after JPMorgan knows how many Eligible Options will be transferred under the Program.

If we had fixed a price for each Eligible Option prior to the Election Deadline, the price would have been fixed prior to the time that JPMorgan would be able to hedge its risk. This would have resulted in additional risk being borne by JPMorgan. Consequently, the price that JPMorgan would have been willing to pay for each Eligible Option would have been based on a significant discount to our then current stock price. The price per Eligible Option that JPMorgan will pay under the Stock Option Transfer Program is based on actual market prices (the Average Closing Price during the Averaging Period) as opposed to some significantly discounted actual market price. The Average Closing Price that will be used in the pricing in the Stock Option Transfer Program will yield a better price per option than a significantly discounted market price would if the Average Closing Price does not fall below the significantly discounted market price. There remains the possibility that a significant decline in the market price of our common stock would reduce the Average Closing Price below this significantly discounted market price.

The main effect of this design is that Eligible Employees are still subject to Microsoft stock price risk in the Stock Option Transfer Program and the Total Payment is a function of our stock price during the Averaging Period.

Having decided to determine the Total Payment after the Election Deadline, we then decided to use an Averaging Period so that the Total Payment that you receive for your Eligible Options will be based on the value of our common stock over a representative period of time, and will be less subject to any short-term price fluctuations. Also, as noted above, JPMorgan or its affiliates will be selling shares of our common stock in connection with their hedging. Because these sales may involve a large volume of our stock, if these sales were conducted on a single day or over a shorter period, these sales could have increased the risk of downward pressure on our stock price (and therefore on the Total Payment for your Eligible Options).

### **Q9. Why is the Total Payment for my Eligible Options different from their value based on other methods of valuation, such as Black-Scholes?**

As more fully described below, the Total Payment for your Eligible Options is based on the value of your Eligible Options after transfer to JPMorgan and related amendments, which may be lower than the theoretical value of the option in your hands. The pricing of every Eligible Option was determined by negotiations between Microsoft and JPMorgan, in part by reference to Black-Scholes and other option pricing models. The Total Payment for your Eligible Options will be determined after the end of the Averaging Period based on the actual Average Closing Price.

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The value of the Eligible Options to you depends on many factors, including your view about the future price of Microsoft common stock, the likelihood of your continued employment at Microsoft, your tolerance for risk and other factors personal to you. There are two available ways to value your Eligible Options: what you think they are worth to you and what you can receive for them under the Stock Option Transfer Program. There is no independent market value for your Eligible Options because employee stock options are not transferable and do not have the kinds of terms that a market-valued option would have. As explained below, there are differences between your employee options, including vesting provisions, and options for which the various existing pricing models were designed. Options that are valued by and traded in the market do not have the restrictive provisions of employee options.

Valuation of any option is a complicated process, and represents an estimation, because such valuations are based on judgments about or approximations of future events. Some factors that affect the value of an option with a particular exercise price are: (1) value of the underlying security (in this case Microsoft common stock), (2) time to maturity of the option (in this case expiration date of the employee stock option, either as amended at the time of transfer to JPMorgan or as it currently exists), (3) expected future volatility of the underlying security (in this case Microsoft common stock), (4) interest rates based on present and future economic factors, and (5) dividend rates of Microsoft common stock. The first four factors have a positive correlation to the value of the option. This means that as each of the market value of Microsoft's common stock, the time to maturity of the option, the expected future volatility of Microsoft's common stock and interest rates increases, the value of the related option on Microsoft common stock increases. The last factor has a negative correlation to the value of the option. This means that as the dividend paid on Microsoft common stock increases, the value of the related option on Microsoft common stock decreases. The estimations of the factors related to future interest rates and volatility at any given time are subjective judgments about which views can differ, although such estimations are available from a number of publicly available sources.

A number of valuation models have been developed to estimate possible values of options. The best known among these valuation models is the Black-Scholes options pricing model. The Black-Scholes model estimates the value of an option based on assumed levels of volatility, interest rates and dividend rates in the future, and therefore the estimated valuation that the Black-Scholes model produces depends on judgments or approximations about these future events. However, the Black-Scholes model and other similar models are intended to estimate the value of an option that is both freely transferable and held by a financial institution or similar entity that has the ability to enter into offsetting hedging transactions. Employee stock options have neither of these characteristics.

Microsoft employee stock options are subject to vesting during employment and forfeiture on termination of employment. As a result, termination of employment prior to vesting or expiration of your options following termination of employment at a time when the relevant Eligible Options are "out-of-the-money" would render the relevant Eligible Options worthless. Any discount to the value of an employee stock option related to the uncertainty of future employment by any individual Eligible Employee is highly employee-specific and relates to factors that are unique to each individual, such as the individual's career and personal plans, adequacy of performance in his or her current job, Microsoft's plans for the business and region where the individual is employed and general business conditions in the industries where Microsoft operates.

It also is important to understand that assumptions about the expected future volatility of Microsoft common stock can have a very significant impact on the valuation of an Eligible Option. In using the Black-Scholes pricing model for traded options, the implied volatility is based on current and anticipated attributes of the underlying company and general market and not on historical volatility of the common stock (in this case Microsoft common stock) underlying the option. However, for accounting or other purposes, the volatility input into the Black-Scholes model often is the historical volatility of common stock underlying the option over a given period because it is an objective calculation using observable inputs. Thus, the price of the tradable option using implied volatility would be different than the price using the same model but using historical or other statistically based volatility inputs.

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In general reducing the time to maturity (as will happen in the Stock Option Transfer Program for most of the Eligible Options) will reduce the model-based value of the employee stock option, possibly significantly. The Total Payment payable for the Eligible Options of any individual Eligible Employee will depend upon such individual factors as the number of Eligible Options held by a given Eligible Employee (the term of which would be reduced upon transfer), the duration and exercise price of options subject to such amendment, the exact combination of options held by the Eligible Employee and other factors described above. Each Eligible Employee should carefully consider his or her individual circumstances in making a decision about whether to participate in the Program.

We and our Board of Directors considered various factors in developing the Stock Option Transfer Program, including the pricing of the Eligible Options. The principal, and somewhat conflicting, considerations were (1) our compensation goals for the Stock Option Transfer Program and (2) our goals with respect to our existing shareholders in minimizing the risk of dilution for them. While neither we nor our Board of Directors makes any recommendation about whether you should participate in the Program, as described below, we and our Board of Directors believe that providing the Stock Option Transfer Program to our employees and shortening the expiration terms of a substantial number of the Eligible Options after transfer to JPMorgan balances our compensation goals with the interests of our shareholders.

First, our goal in granting the employee stock options was to provide compensation to our employees in the form of equity. Although equity-based compensation, such as stock options, subjects employees to some of the risks facing stockholders, we must also consider the competition for qualified employees in the technology sector in our decisions about how to achieve our compensation goals. In addition, the price performance of our common stock during much of the past five years has generally not allowed our employees to exercise their Eligible Options, and many of our employees hold employee stock options with exercise prices much higher than the recent price of our common stock.

Accordingly, our Board of Directors determined that employee stock options with exercise prices at or above \$33.00 per share of our common stock (and stock appreciation rights with grant date values at \$33.00 or above) were not sufficiently meeting our compensation goals and adopted the Stock Option Transfer Program to provide you with two choices:

(1) continue to hold your Eligible Options, retaining the potential to realize an unpredictable value in the future, a value that might be zero or that might exceed the Total Payment by a substantial amount, or

(2) participate in the Program, realizing value now and, if your payment schedule provides for Contingent Payment(s) and if you remain employed through the vesting period(s) for the Contingent Payment(s), realizing a predictable value in the future.

Second, in developing the Program, our Board of Directors also considered the interests of current shareholders and sought to minimize the risk that future exercise of the Eligible Options by JPMorgan might dilute shareholders' ownership in the Company.

Accordingly, our Board of Directors determined that the expiration terms of certain Eligible Options that are transferred under the Program will be shortened. Shortening the expiration terms of these Eligible Options also has the effect of reducing the likelihood that these Eligible Options will be exercised by JPMorgan in the future, which minimizes the possibility of dilution of the interests of existing shareholders. Specifically, for Eligible Options whose expiration dates occur more than 36 months from the last day of the Averaging Period, we will shorten the expiration dates of such Eligible Options after transfer to JPMorgan to 36 months from such date, or in the case of the class of Eligible Options that were issued between February 14, 2000, and April 23, 2000, (excluding any matching grants) to employees then at Employee Level 68 or higher (the "**Multi-Year Grant Options**"), to 24 months from the last day of the Averaging Period. Eligible Options that are transferred under the Program whose terms expire less than 36 months (or 24 months in the case of Multi-Year Grant Options)

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Shortening the expiration term of an option reduces its value. Thus, the price that JPMorgan is paying for your Eligible Options that will have their expiration terms shortened, and the Total Payment in connection with such Eligible Options, is based on these 36 month (or 24 month) expiration terms, as applicable, upon transfer of those Eligible Options to JPMorgan and is less than the amount that would have been paid if the expiration terms of those Eligible Options were not so shortened. The pricing of every Eligible Option was determined by negotiations between Microsoft and JPMorgan in part by reference to Black-Scholes and other option pricing models. The Total Payment for your Eligible Options will be determined based on the actual Average Closing Price, after the end of the Averaging Period.

### **Q10. Will all Eligible Options receive the same value per option as other Eligible Options with the same exercise price and expiration date?**

Yes, except that if you hold Multi-Year Grant Options, the value that you will receive for those options will be less than the value received for other Eligible Options with the same exercise price and expiration date. In order not to distort the compensatory purposes of the Stock Option Transfer Program, we deemed it appropriate for recipients of Multi-Year Grant Options to receive less value in connection with the transfer of those Eligible Options. See Section 1 of the Terms and Conditions.

### **Q11. When and how will I get paid if I transfer my Eligible Options? Will there be any vesting? What if I transfer my Eligible Options and then my employment with Microsoft terminates?**

All payments will be made to you less the appropriate tax withholding by the Company and similar deductions we determine are required. You will not receive any interest equivalent on the Initial Payment.

For purposes of this Notice, “**Initial Payment**” means the payment we intend to make no later than December 31, 2003 in the amounts described below in the payment schedules. In order to be entitled to the Initial Payment, you must be employed by us through the Election Deadline. “**Contingent Payment**” means the one or two portions of the Total Payment, remaining after payment of the Initial Payment, to be made after the applicable period of vesting. In order to be entitled to a Contingent Payment, you must be employed by us through the end of the applicable vesting period. There are two vesting periods. One, applicable to the first Contingent Payment for all Eligible Employees who do not receive their entire Total Payment as their Initial Payment, is two years after the end of the Averaging Period; the other, applicable to the second Contingent Payment for Eligible Employees at Level 68 and above, is three years after the end of the Averaging Period.

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*For all Eligible Employees except those employed in Australia, Canada, Czech Republic, Denmark, Finland, Germany, Hungary, India, Japan, Netherlands, Poland, Singapore, Spain, Trinidad & Tobago or Venezuela:*

**Expected Payment Schedule (% is of Total Payment)**

**And if you are continuously employed by Microsoft:**

If amount of the Total Payment is:	And if your Employee Level at the Election Deadline is:	Through the Election Deadline,	Throughout the two years from the last day of the Averaging Period,	Throughout the three years from the last day of the Averaging Period,
		Then, expected distribution no later than December 31, 2003:	Then, expected distribution no later than December 31, 2005:	Then, expected distribution no later than December 31, 2006:
		Initial Payment	First Contingent Payment Plus Interest Equivalent	Second Contingent Payment Plus Interest Equivalent
\$20,000 or less	Any	100%	N/A	N/A
\$20,000.01 or more	Levels 54-67	Greater of 33.33% or \$20,000	Remainder plus interest equivalent	N/A
	Levels 68+	Greater of 33.33% or \$20,000	50% of the remainder plus interest equivalent for this payment	The remaining amount plus interest equivalent for this payment

**For Eligible Employees employed in Czech Republic, Finland, Hungary, Poland or Trinidad & Tobago:**

Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

**For Eligible Employees employed in Australia, Canada, Denmark, India, Spain, or Venezuela:**

Employees at Level 67 or below as of the Election Deadline: Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

Employees at Level 68 or above as of the Election Deadline: The Initial Payment will be a portion of the Total Payment equal to (1) the sum of (a) the top marginal income tax rate in the country in which you are employed expressed as a percentage and (b) 18%, multiplied by (2) the Total Payment. The first Contingent Payment, which we intend to pay no later than December 31, 2005, will be one-half of the remainder of the Total Payment. The second Contingent Payment, which we intend to pay no later than December 31, 2006, will be the other half of the remainder. The Contingent Interest Payment(s) will be based on the Contingent Payments as described in Section 2 of the Terms and Conditions.

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### ***For Eligible Employees employed in Germany, Japan, Netherlands, or Singapore:***

As of the date of this Notice, the tax authorities have not provided guidance on the applicable tax treatment for your participation in the Program.

**Payment Schedule If Favorable Tax Treatment:** If the tax authorities confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the generally applicable payment schedule for all Eligible Employees, provided in the table above.

**Payment Schedule If Unfavorable Tax Treatment:** If the tax authorities do not confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the payment schedule for Eligible Employees employed in Australia, Canada, Denmark, India, Spain or Venezuela, provided above.

No interest equivalent will be paid on Initial Payments. During the vesting period for each Contingent Payment, we will credit to the Contingent Payment account an amount equivalent to interest earned monthly on each unpaid Contingent Payment at the three-month U.S. Treasury bill yield adjusted for a constant maturity, compounded monthly on an actual 365 day basis. This interest equivalent will be calculated using the period from the date JPMorgan is obligated to pay us for the transferred options (currently expected to be the third business day after the end of the Averaging Period) through the date on which the Contingent Payment vests. For each Contingent Payment, the sum of these monthly credits to the Contingent Payment account as of the date they are credited to your account is the “**Contingent Interest Payment**” related to that Contingent Payment. We will make all determinations about the applicable interest rate and the amount of any Contingent Interest Payment.

The payment schedules described above assume that Microsoft will be able to make the Initial and Contingent Payment(s) on the next administratively feasible payroll date after the scheduled closing of the Stock Option Transfer Program and the scheduled vesting dates. JPMorgan is obligated to pay Microsoft for the Eligible Options upon consummation of the Stock Option Transfer Program, which is scheduled to occur no later than three business days following the end of the Averaging Period. Microsoft plans to make the Initial Payment on the next administratively feasible payroll date after the scheduled closing of the Stock Option Transfer Program. Accordingly, Microsoft will hold funds received from JPMorgan for approximately two weeks prior to distributing the funds to the Eligible Employees who have elected to participate in the Stock Option Transfer Program.

Microsoft reserves the right to accelerate one or more of the payment schedules if there is an adverse tax ruling or other regulatory action that would, in Microsoft’s judgment taking into account the best interest of the affected Eligible Employees, make it appropriate to accelerate the payment schedule.

If your employment (including part-time employment or leave of absence) with us terminates for any reason after the Election Deadline but before the date on which one or more of the Contingent Payments would have become payable, you will be paid the Initial Payment. If your employment (including part-time employment or leave of absence) with us terminates for any reason after the Election Deadline but before the date that one or more of the Contingent Payments would have become payable, you will forfeit any Contingent Payment that has not vested and any Contingent Interest Payment related to that Contingent Payment. To receive the Initial Payment, you must remain employed with us until the Election Deadline. To receive each Contingent Payment, plus the Contingent Interest Payment related to the Contingent Payment, you must remain employed with us for the entire vesting period applicable to each Contingent Payment.

If your employment is terminated due to death or total and permanent disability, you or your estate will be entitled to receive any Contingent Payment that would have become payable had you remained employed for a period of 12 months after the date of your death or the date on which you ceased performing services as a result



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of total and permanent disability. You or your estate will also be entitled to receive the Contingent Interest Payment related to that Contingent Payment. This payment, if applicable, will be made promptly following your death or termination of employment due to permanent disability.

### **Q12. Will payments I receive for transferring my Eligible Options be considered compensation for purposes of my various Microsoft Benefits?**

None of the payments you may receive as a result of transferring Eligible Options will be considered part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments, or for purposes of Microsoft's 401(k) plans, Microsoft's Employee Stock Purchase Plan, or any other plans Microsoft or any of its subsidiaries provides or makes available to you. However, the funds received and taxes withheld for the transfer of the Eligible Options to JPMorgan will be reported by Microsoft as required.

### **Q13. Are there any conditions that must be satisfied for the Program to be available to me?**

The availability of the Stock Option Transfer Program is **not** conditioned on a minimum number of Eligible Employees participating in the Stock Option Transfer Program or on an aggregate minimum number of Eligible Options being transferred. In addition, there is no limit to the number of Eligible Options that may be transferred in the Stock Option Transfer Program. Subject to the conditions listed below, and as more fully described in Sections 7 and 8 of the Terms and Conditions, any Eligible Options that are properly and timely elected to be transferred in accordance with the terms of the Stock Option Transfer Program as provided in this Notice (including, if applicable, additional instructions on a paper copy of the Election Form) will be accepted by us, in exchange for the appropriate Total Payment.

Consummation by Microsoft of the Stock Option Transfer Program, including the acceptance of Eligible Options by Microsoft, is subject to the satisfaction or waiver of several conditions, not all of which will be satisfied or waived prior to the Election Deadline including:

- the absence of a Stock Option Transfer Program Disruption Event, as described in Section 7 of the Terms and Conditions;
- the absence of a termination of any of the Stock Option Transfer Program transaction documents between JPMorgan and Microsoft described in Section 9 of the Terms and Conditions;
- performance by JPMorgan in all material respects of its obligations under the transaction documents, as described in Section 9 of the Terms and Conditions; and
- the accuracy in all material respects of the representations and warranties regarding due authorization, validity, enforceability, noncontravention, and other similar matters made by JPMorgan in the Stock Option Transfer Program documents.

**As more fully described in Section 8 of the Terms and Conditions, the Stock Option Transfer Program is subject to several conditions and, under certain circumstances, we may terminate the Stock Option Transfer Program. If the conditions to the Stock Option Transfer Program are not satisfied or waived or if the Stock Option Transfer Program is terminated, you will retain all of your Eligible Options on their current terms and conditions, the transfer of your Eligible Options will be rescinded, and you will not be paid for any Eligible Options, regardless of whether you elected to participate in the Stock Option Transfer Program.**

**Q14. If I elect to transfer my Eligible Options, do I have to transfer all of them or may I just transfer some of them?**

If you elect to participate in the Stock Option Transfer Program and the Stock Option Transfer Program is not terminated as explained in Section 8 of the Terms and Conditions, all of your Eligible Options will be transferred to JPMorgan. You will not be able to transfer less than all of your Eligible Options. For example, if you have three grants of options at exercise prices of \$30, \$35 and \$40 and you decide to participate in the Stock Option Transfer Program, all of the \$35 and \$40 options will be transferred. The \$30 options will not be transferred because \$30 options are not Eligible Options. See Section 1 of the Terms and Conditions.

**Q15. If I elect to transfer my Eligible Options, may I exercise my Eligible Options during the Election Period or during the Averaging Period?**

If you elect to transfer your Eligible Options, you may still exercise any of your vested Eligible Options to acquire common stock at any time during the Election Period. Your election to transfer Eligible Options will only apply to your Eligible Options that remain outstanding and unexercised at the Election Deadline.

If you have validly made and not withdrawn an election to participate as of the Election Deadline, you will not be able to exercise your Eligible Options after the Election Deadline unless the Stock Option Transfer Program is terminated as described in Section 8 of the Terms and Conditions. In the event of such a termination, during the period from the Election Deadline to the date Microsoft announces that the Stock Option Transfer Program has been terminated, you will not have been able to exercise your Eligible Options, and we will not compensate you or make you whole for any missed opportunity to exercise your Eligible Options as a result of your having participated in the Stock Option Transfer Program.

**Q16. What are JPMorgan's obligations to me under the Program?**

JPMorgan has no obligations to you under the Stock Option Transfer Program. Only we are obligated to make any payments to you for the Eligible Options that you transfer under the Stock Option Transfer Program, including the Initial Payment, Contingent Payment(s) and Contingent Interest Payment(s). JPMorgan is obligated to pay us if the Stock Option Transfer Program is consummated. JPMorgan's role in the Stock Option Transfer Program is the result of a negotiated business arrangement between Microsoft and JPMorgan.

**Q17. What market activities will JPMorgan engage in, and how could they affect me?**

JPMorgan has informed us that it intends to enter into market transactions to hedge its exposure to the ownership of the Eligible Options, as amended. These market transactions will include sales of our common stock that will take place during the Averaging Period, pursuant to a registration statement filed with the Securities and Exchange Commission (the "SEC").

During the Averaging Period, JPMorgan expects to sell shares of our common stock pursuant to the registration statement to establish its desired hedge position. JPMorgan expects to sell approximately equal numbers of shares on each day during the Averaging Period. These sales could have the effect of decreasing the market price of our common stock. If these sales decrease the market price of our common stock during the Averaging Period, this would cause you to receive a lower price for your Eligible Options under the Stock Option Transfer Program.

During the Election and Averaging Periods and after the end of the Averaging Period, JPMorgan also expects to sell additional shares pursuant to the registration statement to comply with regulatory requirements. These additional shares, together with the shares JPMorgan sells to establish its desired hedge position, will equal the total number of shares underlying all Eligible Options that are transferred under the Stock Option Transfer Program. The sales of these additional shares will not be made to establish a hedge position. As a result,

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JPMorgan expects to purchase a number of shares in secondary market transactions approximately equal to the number of these additional shares it sells, on the same days it sells additional shares, so that JPMorgan will be in its desired hedge position after taking into account all such additional sales and corresponding purchases. The number of shares purchased may be a significant percentage of the number of shares sold under the registration statement and, depending on market factors and the terms of the transferred options, is likely to represent substantially more than half of the total number of shares sold. The sales and purchases that are not made to establish JPMorgan's hedge position may take place before, during and after the Averaging Period.

JPMorgan may also buy or sell additional shares of our common stock or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to the Eligible Options. JPMorgan also may be active in the market for our common stock other than in connection with hedging activities in relation to the Stock Option Transfer Program. JPMorgan will make its own determination as to whether, when or in what manner any hedging or market activities in our securities will be conducted. Any of JPMorgan's market activities with respect to our common stock may affect the market price and volatility of our common stock.

### **Q18. Will I have to pay taxes if I transfer my Eligible Options?**

*For Eligible Employees subject to U.S. income and other taxes:*

If you elect to transfer your Eligible Options under the Stock Option Transfer Program, we believe that you will recognize ordinary income for U.S. federal income tax purposes on any payments you receive upon receipt of such payment. The payments may also be subject to other taxes, such as federal employment, state, local and foreign taxes. Any payments will be made to you less the appropriate tax withholding by Microsoft and similar deductions that we determine are required. Depending on your personal tax situation, you may owe U.S. federal income taxes on the payments in excess of the amounts withheld.

We recommend that you consult with your own tax advisor to determine the tax consequences of transferring your Eligible Options. See Section 16 of the Terms and Conditions for more information on the U.S. federal income tax consequences of the Stock Option Transfer Program.

We have requested a ruling from the Internal Revenue Service ("IRS") confirming the U.S. federal income tax consequences described above and in Section 16 of the Terms and Conditions.

*For Eligible Employees subject to foreign taxes:*

If you are subject to tax in a country outside the U.S., the tax consequences of participating in the Stock Option Transfer Program may differ depending on your country of residence. Please be sure to read the discussion in this Notice of the potential tax consequences in the country in which you are subject to tax. See your country-specific discussion in the Guide To Issues In Countries Other Than The United States at the end of this Notice.

### **Q19. What happens if I decide not to transfer my Eligible Options?**

Participation in the Stock Option Transfer Program is completely voluntary. If you elect not to participate, your existing Eligible Options will remain outstanding on their current terms and conditions. In addition, any options you hold other than Eligible Options will remain outstanding whether or not you participate in the Stock Option Transfer Program.

We do not plan to provide any other opportunities in the future that would be similar to this Stock Option Transfer Program in jurisdictions in which this offer is being made.

We believe that you will not be subject to current U.S. federal income tax if you decide to keep your Eligible Options. We do not believe that our making the Stock Option Transfer Program available to you will

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change any of the terms of your eligible incentive stock options. However, if you hold incentive stock options, the IRS may characterize the availability of the Stock Option Transfer Program as a “modification” of your incentive stock options, even if you decline to transfer your Eligible Options. A successful assertion by the IRS that the incentive stock options are modified could cause those options to be treated as nonqualified stock options.

We recommend that you consult with your own tax advisor to determine the tax consequences of not transferring your Eligible Options. See Section 16 of the Terms and Conditions for more information on the U.S. federal income tax consequences of the Stock Option Transfer Program.

We have requested a ruling from the IRS confirming the U.S. federal income tax consequences described above and in Section 16 of the Terms and Conditions. However, this ruling will not address whether the availability of the Stock Option Transfer Program will be characterized by the IRS as a “modification” resulting in your incentive stock options that are Eligible Options being treated as nonqualified stock options. You can determine if you hold incentive stock options by checking the Employee Election Tool. If you have further questions you should consult your own tax advisor.

### **Q20. Will my decision whether to participate in the Program affect any future grant of equity awards to me?**

No. As with all equity awards, the decision whether you receive an equity award in the future will be based on factors related to performance and compensation.

### **Q21. When does my ability to elect to participate in the Program end? May the Election Period be extended, and if so, how will I know if it has been extended?**

The Election Period for the Stock Option Transfer Program will end on Wednesday, November 12, 2003, at Midnight, New York City/Eastern Time, unless we extend it as explained in Section 7 of the Terms and Conditions (such time, as it may be extended, is referred to as the “**Election Deadline**”).

We may extend the Election Period for any of the reasons described in Section 7 of the Terms and Conditions.

If we extend the Election Period, we will publicly announce the extension no later than 9:00 a.m., New York City/Eastern Time, on the next business day following the date the period would have expired if not extended.

An extension of the Election Period may reduce the number of trading days used in determining the Average Closing Price. Any delay in completing the Election Period could also reduce the number of days available for the Averaging Period and thus increase the likelihood that the Stock Option Transfer Program could be terminated as described in Section 8 of the Terms and Conditions.

### **Q22. What do I need to do to transfer my Eligible Options?**

If you wish to participate in the Stock Option Transfer Program, you must properly submit your election to participate prior to the Election Deadline using the following instructions (and, if applicable, additional instructions on a paper copy of the “**Election Form**,” which is the functional equivalent of the process for electing to participate via the Employee Election Tool).

We have two different election procedures, depending on the country in which you are employed.

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If you are employed in the United States or any other country not listed in the next paragraph, you will be able to submit your election to participate:

- by following the instructions to make your election to participate in the Employee Election Tool on <https://stock> under the Option Transfer tab,
- OR
- by faxing or mailing your completed paper copy of the Election Form, marked to indicate your election to participate, to Mellon Investor Services at (201) 329-8456 or by mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.” Forms may be requested by contacting Microsoft Stock Services at (425) 706-8853 or by email at [compchng@microsoft.com](mailto:compchng@microsoft.com).

The same procedures are used to withdraw an election to participate except that, if you do not use the Employee Election Tool to withdraw your election to participate, you will need to mark the “**Withdrawal Form**” (which is the functional equivalent of the process for electing to withdraw from participation via the Employee Election Tool), to indicate your withdrawal from participation.

If you are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay and you make your election to participate through the Employee Election Tool, you will be required to submit your election to participate by completing a two-step process:

- (1) elect to participate online through the Employee Election Tool on <https://stock> under the Option Transfer tab, and then
- (2) print and return a signed copy of your form (which will be presented to you via the Employee Election Tool) to Mellon Investor Services by facsimile to (201) 329-8456 or by mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.”

**In order for your election to be valid, Mellon Investor Services must RECEIVE your signed Election Form by the Election Deadline.**

Regardless of the country in which you are employed, if you are an Eligible Employee who is on leave of absence, you will be sent a paper election packet with instructions about how to elect to participate. You may either fax or mail your completed paper copy of the Election Form, marked to indicate your election to participate, to Mellon Investor Services in time to arrive by the Election Deadline. However, as an Eligible Employee on leave, you may also elect to participate or to withdraw from participation using the Employee Election Tool by following the procedures set forth above and in Sections 5 and 6 of the terms and conditions.

**Submission of your election by any other method will NOT be accepted. You may change your election by properly submitting an election to participate or to withdraw from participation until the Election Deadline. After this deadline, no elections to participate or to withdraw will be accepted.**

**Submission of elections directly to Microsoft other than through the Employee Election Tool will NOT be accepted.**

Your proper and timely use of any of these methods (or another method as otherwise specified in writing by our Chief Financial Officer, General Counsel, or Vice President of Human Resources) to submit an election to participate or an election to withdraw from participation will constitute a “**Submitted Election.**” To be timely, your election must be RECEIVED before the Election Deadline either by us via the Employee Election Tool or

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by Mellon Investor Services via facsimile at (201) 329-8456 or by mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.” If you are employed in one of the countries listed above which requires you to return a signed copy of your form and you make your election using the Employee Election Tool, then in addition to your online election, Mellon Investor Services must RECEIVE the signed copy of your Election Form either by facsimile or by mail before the Election Deadline. You are responsible for any untimely or otherwise improper submission.

If you have questions about making an election, you may contact Microsoft Stock Services at (425) 706-8853 or send email to [compchg@microsoft.com](mailto:compchg@microsoft.com). You should review this Notice (including, if applicable, additional instructions on a paper copy of the Election Form) before making your election.

### **Q23. If I submit an election, how do I withdraw my election? During what period of time may I withdraw my election?**

If you elect to participate in the Stock Option Transfer Program and you later want to withdraw your election to participate, you must submit your election to withdraw using any of the means that you could have used to submit an election to participate. See Question 22 and Section 6 of the Terms and Conditions. Your election to withdraw must be RECEIVED before the Election Deadline.

If you withdraw your election and you later decide you want to participate in the Stock Option Transfer Program, you may again elect to participate as long as you submit your election in accordance with the instructions in Section 5 of the Terms and Conditions by the Election Deadline. See Question 22 and Section 5 of the Terms and Conditions.

### **Q24. What factors should I consider in deciding whether to transfer my Eligible Options? Does Microsoft or JPMorgan make any recommendations?**

**None of Microsoft, its Board of Directors, or JPMorgan makes any recommendation about whether you should participate in the Stock Option Transfer Program.** Microsoft developed the Stock Option Transfer Program to achieve the Company’s compensation goals while protecting the interests of our shareholders. In an effort to balance these competing interests and goals, we determined that the expiration terms of certain Eligible Options that are transferred under the Stock Option Transfer Program will be shortened. Specifically, we decided to fix the expiration terms of all Eligible Options upon transfer to JPMorgan under the Stock Option Transfer Program to no more than 36 months (24 months for Multi-Year Grant Options) from the last day of the Averaging Period. Shortening the expiration term of an option reduces its value. The price that JPMorgan is paying for these Eligible Options, and consequently the Total Payment in connection with your Eligible Options, is based on these 36 month (or 24 month) expiration terms, as applicable, upon transfer of your Eligible Options to JPMorgan and is less than the amount that would have been paid if the expiration terms of your Eligible Options were not so shortened. Shortening the expiration terms of these Eligible Options also has the effect of reducing the likelihood that these Eligible Options will be exercised by JPMorgan in the future, which minimizes dilution of the interests of shareholders. Eligible Options that are transferred under the Program whose terms expire less than 36 months (or 24 months in the case of Multi-Year Grant Options) from the last day of the Averaging Period will have the same expiration dates upon transfer to JPMorgan as they did before such transfer, extended by the number of calendar days from (and including) December 5, 2003 to (but excluding) the last day of the Averaging Period, which we currently expect to be no later than December 9, 2003.

The pricing of every Eligible Option was determined by negotiations between Microsoft and JPMorgan in part by reference to Black-Scholes and other option pricing models.

In deciding whether to participate in the Stock Option Transfer Program, you may wish to consider the discussion in the preceding two paragraphs, the current terms and conditions of your Eligible Options in your

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hands, including their exercise prices and expiration dates, the terms and conditions of the Stock Option Transfer Program described in this Notice, and your personal situation and expectations. The following are some additional factors you may wish to consider:

### Factors related to the **likelihood of your continued employment at Microsoft**:

- If you do not participate, your Eligible Options will retain their current terms and conditions. If some of your Eligible Options are unvested on the date your employment terminates for any reason, you will lose those options. If some of your Eligible Options are vested on the date your employment terminates for any reason, you will retain the ability to exercise those options only for the period of time set forth in the agreement relating to your Eligible Options.
- If you do participate, it is expected that you will receive the Initial Payment no later than December 31, 2003. If the Total Payment for your Eligible Options exceeds \$20,000, the Contingent Payment(s) will be subject to vesting. If you have Contingent Payment(s) that are unvested on the date your employment terminates for any reason, you will lose those Contingent Payment(s) along with the Contingent Interest Payment(s) related to those Contingent Payment(s). If you have a Contingent Payment that is vested on the date your employment terminates for any reason, you will receive that Contingent Payment along with the Contingent Interest Payment related to that Contingent Payment.

### Factors related to your expectations about the **price of our common stock**:

- You will not know the price to be paid for the Eligible Options until after the time that you can elect to participate or elect to withdraw your participation. The price to be paid will be determined based on the Average Closing Price of the value of our stock during the Averaging Period. We have provided a set of tools in the Employee Election Tool to assist you in estimating the Total Payment for your Eligible Options in various stock price scenarios. The Average Closing Price cannot be extrapolated from prices of our stock prior to the Averaging Period. As described in Section 9 of the Terms and Conditions, JPMorgan expects to sell shares of our common stock to establish its desired hedge position. JPMorgan expects to sell approximately equal numbers of shares on each day during the Averaging Period. These sales could have the effect of decreasing the market price of our common stock. It is possible that the Average Closing Price will be substantially below prevailing prices during the Election Period. It is also possible that prices during the Averaging Period could rise so that some Eligible Options would be in-the-money or close-to-being-in-the-money. However, once the Election Deadline has passed, your election to participate is irrevocable, even if the price of our common stock changes significantly during the Averaging Period.
- The percentage change in the price to be paid for the Eligible Options is greater (both increases and decreases) than the percentage change in the price of Microsoft stock. Thus, a small percentage decline in the average price for Microsoft stock necessarily results in a greater percentage decline in the Total Payment for your Eligible Options. In general, due to the leverage embedded in an option, any change in the value of the stock underlying any option results in a greater percentage change in the value of the option. This is true regardless of which option pricing model is used, and consequently is also true of the price to be paid for the Eligible Options.
- If our stock price rises above the exercise price of your Eligible Options that are vested now or in the future, you could receive more value by exercising your Eligible Options in the future than you will receive if you participate in the Stock Option Transfer Program. However, if our stock price does not rise above the exercise price of your Eligible Options before the Eligible Options expire and you do not participate in the Stock Option Transfer Program, your Eligible Options would

expire worthless. We can make no prediction about whether our stock price will rise or fall in the future. A number of valuation models have been developed to estimate possible values of options. The best known among these valuation models is the Black-Scholes options pricing model. The Black-Scholes model estimates the value of an option based on assumed levels of volatility, interest rates and dividend rates in the future, and therefore the estimated valuation that the Black-Scholes model produces depends on judgments or approximations about these future events. However, the Black-Scholes model, and other similar models, are intended to estimate the value of an option that is both freely transferable and held by a financial institution or similar entity that has the ability to enter into offsetting hedging transactions. Neither of these statements is true of employee stock options. **As discussed in more detail in Question 9, in general, reducing the time to maturity (as will happen in the Stock Option Transfer Program for most of the Eligible Options) will reduce the Black-Scholes model-based value of the employee stock option, possibly significantly.** The actual value to be received by any Eligible Employee will depend upon individual facts and circumstances, such as the number of Eligible Options held by a given Eligible Employee, the term of which would be reduced upon transfer, the duration and exercise price of the Eligible Options subject to such amendment, the exact combination of Eligible Options held by the employee and other factors described elsewhere in this Notice. Each Eligible Employee should carefully consider his or her individual circumstances in making a decision as to whether to participate in or withdraw from the Program.

Factors related to your **personal situation**:

- Your personal financial situation and your need for current cash.
- The Stock Option Transfer Program is a one-time opportunity to transfer Eligible Options. We do not plan to make any options transferable in the future or to offer a similar transfer program again in the same jurisdictions. Therefore, if you choose not to participate in the Stock Option Transfer Program, you should expect to hold your options until you exercise them or they expire. If our stock price does not rise above the exercise price of an Eligible Option by the time the Eligible Option expires, that Eligible Option will expire worthless.
- We believe you will recognize ordinary income for U.S. Federal income tax purposes for payments when received. The payments may also be subject to other taxes. If you are subject to foreign taxes, the consequences of participating may differ depending on your country of residence. In deciding whether to participate in the Stock Option Transfer Program, we recommend that you consult with your own tax advisor to assess your current tax situation.

Factors related to the **structure of the Stock Option Transfer Program**

- Your election decision will be irrevocable as of the Election Deadline and as described in Section 8 of the Terms and Conditions, consummation by Microsoft of the Stock Option Transfer Program, including the acceptance of Eligible Options by Microsoft, is subject to the satisfaction or waiver of several conditions, not all of which will be satisfied or waived prior to the Election Deadline.
- If the Averaging Period consists of five or fewer Available Trading Days, then the Stock Option Transfer Program will be terminated and the opportunity to transfer your Eligible Options will be rescinded, no Eligible Options will be transferred, and you will not be paid for any Eligible Options.
- The Stock Option Transfer Program is subject to certain conditions and terminating events as described in Sections 7 and 8 of the Terms and Conditions.



Factors related to **Microsoft's business:**

- **Challenges to our business model may adversely affect our business.** As a result of challenges to our business model, sales of our products may decline, we may have to reduce the prices we charge for our products, and our revenues and operating margins may consequently decline. Since our inception, our business model has been based upon customers agreeing to pay a fee to license software developed and distributed by us. Under this commercial software model, software developers bear the costs of converting original ideas into software products through investments in research and development, offsetting these costs with the revenues received from the distribution of their products. We believe the commercial software model has had substantial benefits for users of software, allowing them to rely on our expertise and the expertise of other software developers that have powerful incentives to develop innovative software that is useful, reliable, and compatible with other software and hardware. In recent years, there has been a growing challenge to the commercial software model, often referred to as the Open Source model. Under the Open Source model, software is produced by loosely associated groups of unpaid programmers, and the resulting software and the intellectual property contained therein is licensed to end users at substantially no cost. The most notable example of Open Source software is the Linux operating system. While we believe that our products provide customers with significant advantages in security and productivity, and generally have a lower total cost of ownership than Open Source software, the popularization of the Open Source model continues to pose a significant challenge to our business model, including recent efforts by proponents of the Open Source model to convince governments worldwide to mandate the use of Open Source software in their purchase and deployment of software products. To the extent the Open Source model gains increasing market acceptance, sales of our products may decline, we may have to reduce the prices we charge for our products, and revenues and operating margins may consequently decline.
- **Lack of compliance by others with existing legal protections or reductions in the legal protection for intellectual property rights of software developers could adversely affect our revenue.** We defend our intellectual property rights, but unlicensed copying and use of software and intellectual property rights represents a loss of revenue to us. While this adversely affects U.S. revenue, the impact on revenue from outside the United States is more significant, particularly in countries where laws are less protective of intellectual property rights. Throughout the world, we actively educate consumers about the benefits of licensing genuine products and educate lawmakers about the advantages of a business climate where intellectual property rights are protected. However, continued educational and enforcement efforts may not affect revenue positively and further deterioration in compliance with existing legal protections or reductions in the legal protection for intellectual property rights of software developers could adversely affect revenue.
- **Claims from others that we infringe their intellectual property rights may adversely affect our operations.** From time to time we receive notices from others claiming we infringe their intellectual property rights. The number of these claims may grow. Responding to these claims may require us to enter into royalty and licensing agreements on unfavorable terms, require us to stop selling or to redesign affected products, or require us to pay damages or to satisfy indemnification commitments with our customers. We have made and expect to continue making significant expenditures to acquire the use of technology and intellectual property rights, including via cross-licenses of broad patent portfolios.
- **Our new products, services and technologies may never be profitable.** We have made significant investments in research, development and marketing for new products, services and technologies, including Microsoft .NET, Xbox, business applications, MSN, mobile and wireless technologies, and television. Significant revenue from new product and service investments may not be achieved for a number of years, if at all. Moreover, these products and services may never be profitable, and

even if they are profitable, operating margins for these businesses are not expected to be as high as the margins we have historically experienced.

- **We are subject to a variety of claims and lawsuits and it is possible that one or more of these matters could be resolved in a manner that ultimately would have a material adverse impact on our business, and could negatively impact our revenues, operating margins, and net income.** We are subject to a variety of claims and lawsuits, as described in Note 20—Contingencies of the Notes to Financial Statements included in our Form 10-K for the year ended June 30, 2003 and in other filings we make with the SEC. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us. We are also subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. While management currently believes that resolving all of these matters, individually or in aggregate, will not have a material adverse impact on our financial position or our results of operations, the litigation and other claims noted above are subject to inherent uncertainties and management's view of these matters may change in the future. If an unfavorable final outcome occurs, there exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.
- **Actual or perceived security vulnerabilities in our products could adversely affect our revenues.** Maintaining the security of computers and computer networks is an issue of critical importance for Microsoft and our customers. There are individuals and groups who develop and deploy viruses, worms and other malicious software programs that attack our products. While this is an industry-wide phenomenon that affects computers across all platforms, Microsoft's customers have been victims of such attacks and will likely continue to be so. Microsoft is devoting significant resources to addressing these critical issues. We are focusing our efforts on engineering more secure products, optimizing security and reliability options and settings when we deliver products, and providing guidance to help our customers make the best use of our products and services to protect against computer viruses and other attacks on their computing environment. In addition, we are working to improve the deployment of software patches to address security vulnerabilities discovered after our products are released. We are also investing in mitigation technologies that secure customers from attacks even when such software patches are not deployed. We are also advising customers on how to help protect themselves from security threats through the use of our online automated security tools, our published security guidance and the deployment of security software such as firewalls, antivirus and other security software. Despite these efforts, actual or perceived security vulnerabilities in our products could lead some customers to seek to return products, to reduce or delay future purchases or to purchase competitive products. Customers may also increase their expenditures on protecting their computer systems from attack, which could delay adoption of new technologies. Any of these actions by customers could adversely affect our revenues.
- **Our revenue will be adversely affected by declines in demand for software.** If overall market demand for PCs, servers and other computing devices declines significantly, or consumer or corporate spending for such products declines, our revenue will be adversely affected. Additionally, our revenues would be unfavorably impacted if customers reduce their purchases of new software products or upgrades to existing products because new product offerings are not perceived as adding significant new functionality or other value to prospective purchasers. A significant number of customers purchased license agreements providing upgrade rights to specific licensed products prior to the transition to Licensing 6.0 in July 2002. These agreements will expire in 2004 and 2005 and the rate at which such customers renew these contracts could adversely affect future revenues. We are also committing significant investments in the next release of the Windows operating system, code named Longhorn. If this system is not perceived as offering significant new functionality or value to prospective purchasers, our revenues and operating margins could be adversely affected.
- **Significant delays in new product releases or significant problems in creating new products could adversely affect our revenues.** The development of software products is a complex and

time-consuming process. New products and enhancements to existing products can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products, particularly any delays in the Longhorn operating system, could adversely affect our revenues.

- **Economic conditions in our markets may result in reduced product sales and lower revenue growth.** Continued softness in corporate information technology spending or other changes in general economic conditions that affect demand for computer hardware or software could adversely affect our revenues. Terrorist activity and armed conflict pose the additional risk of general economic disruption and could require changes in our international operations and security arrangements, thus increasing our operating costs. These conditions lend additional uncertainty to the timing and budget for technology investment decisions by our customers.
- **Because of increasing competition in the PC industry, we may experience reduced product sales and lower revenue growth.** We continue to experience intense competition across all markets for our products and services. These competitive pressures may result in decreased sales volumes, price reductions, and/or increased operating costs, such as for marketing and sales incentives, resulting in lower revenues, gross margins and operating income.
- **The loss of certain tax benefits or assessment of additional taxes could have a significant negative impact on us.** In August 2001, a World Trade Organization (“WTO”) dispute panel determined that the tax provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (“ETI”) constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. The U.S. government appealed the panel’s decision and lost its appeal. If the ETI provisions are repealed and financially comparable replacement tax legislation is not enacted, the loss of the ETI tax benefit to us could be significant. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, a material effect on our income tax provision and net income in the period or periods for which that determination is made could result.
- **Our third party and captive insurance arrangements have limits, and the potential liabilities with certain risks we face could exceed our insurance coverage.** In addition to conventional third party insurance arrangements, we have entered into captive insurance arrangements for the purpose of protecting against possible catastrophic impact and other risks not covered by traditional insurance markets. As of June 30, 2003, potential coverage available under captive insurance arrangements was \$1.0 billion, subject to deductibles, exclusions, and other restrictions. While we believe these arrangements are an effective way to insure against such risks, the potential liabilities associated with certain risks discussed in this Question 24 could exceed the coverage provided by such arrangements. Other issues and uncertainties that could have a negative effect on our business and results of operations include: (i) warranty and other claims for hardware products such as Xbox; (ii) the effects of the Consent Decree in U.S. v. Microsoft and Final Judgment in State of New York v. Microsoft on the Windows operating system and server business, including those associated with protocol and other disclosures required by the Decree and Final Judgment and the ability of PC manufacturers to hide end user access to certain new Windows features; (iii) the continued availability of third party distribution channels for MSN service and other online services; (iv) factors associated with our international operations; and (v) financial market volatility or other changes affecting the value of our investments, such as the Comcast Corporation securities held by

us, that may result in a reduction in carrying value and recognition of losses including impairment charges.

- **Other issues and uncertainties may affect our business.** Other issues and uncertainties that could have a negative effect on our business and results of operations include: (i) warranty and other claims for hardware products such as Xbox; (ii) the effects of the Consent Decree in U.S. v. Microsoft and the Final Judgment in State of New York v. Microsoft on the Windows operating system and server business, including those associated with protocol and other disclosures required by the Decree and Final Judgment and the ability of PC manufacturers to hide end user access to certain new Windows features; (iii) the continued availability of third party distribution channels for MSN service and other online services; (iv) factors associated with our international operations; and (v) financial market volatility or other changes affecting the value of our investments, such as the Comcast Corporation securities held by us, that may result in a reduction in carrying value and recognition of losses including impairment charges.

You will have to determine for yourself the relevance and importance to you of these and other factors in making your decision.

**None of Microsoft, Microsoft's Board of Directors or JPMorgan makes any recommendation about whether you should participate in the Stock Option Transfer Program. In addition, we have not authorized anyone to provide you with information different from the information contained in this Notice or in the Employee Election Tool. You must make your own decision whether or not to transfer your Eligible Options.**

**Q25. My former spouse has rights to some of my Eligible Options as a result of a divorce (or a pending divorce). Can I elect to transfer just some of my Eligible Options? Can my former spouse make elections?**

You may transfer all, but not less than all, of the Eligible Options that we have issued to you. If any of your Eligible Options are subject to a domestic relations order (or comparable legal document as the result of a pending divorce proceeding or the end of a marriage), you are responsible for ensuring that any election complies with the terms of such order or other document. Depending on your circumstances, you may need to consult with your current or former spouse prior to making an election. We will not accept elections to participate or withdrawals from anyone other than the Eligible Employee to whom the Eligible Options were issued.

**Q26. To whom can I talk if I have questions?**

For additional information or assistance about the Stock Option Transfer Program, you may call (425) 706-8853 or email [compchng@microsoft.com](mailto:compchng@microsoft.com).

## II. TERMS AND CONDITIONS

### 1. Eligibility; Requirement To Transfer All Or None; Election Period; Agreement To Amendment; Other Amendments; Transfer Of Title; Other Definitions.

The Stock Option Transfer Program is a program we are making available to you to allow you to transfer all (but not less than all) of your Eligible Options to JPMorgan and receive the Total Payment from us for your Eligible Options, provided you satisfy the terms and conditions of the Program.

Eligible Employees. To be eligible to participate in the Stock Option Transfer Program, you must be an Eligible Employee. An “**Eligible Employee**” is a person who:

- holds Eligible Options;
- is an employee of Microsoft or one of its subsidiaries (including a part-time employee or an employee on leave of absence) during the entire Election Period, up to and including the Election Deadline;
- is not an advisor or consultant of Microsoft or its subsidiaries or a member of Microsoft’s Board of Directors; and
- is not employed in Belgium, Italy or Pakistan.

Eligible Options. Eligible Employees may transfer for cash consideration all Eligible Options. “**Eligible Options**” are options or share appreciation rights that:

1. are vested and unvested stock options, incentive stock options, or share appreciation rights;
2. are outstanding from the first day of the Election Period up to and including the Election Deadline;
3. were granted under the Microsoft 1991 Stock Option Plan, the Microsoft 2001 Stock Plan, the employee stock option plans that Microsoft assumed in connection with Microsoft’s acquisition of Visio Corporation, or the 1997 Share Appreciation Rights Plan (together, the “**Option Plans**”);
4. have an exercise price per share (or in the case of a share appreciation right, a grant date value) equal to or greater than \$33.00; and
5. expire on or after February 29, 2004.

Some employees who joined Microsoft in connection with Microsoft’s acquisition of Navision a/s continue to hold options and/or warrants exercisable for Navision shares. These options and warrants are not Eligible Options.

As of September 30, 2003, all Eligible Employees (approximately 37,000 employees) as a group held Eligible Options to purchase a total of approximately 624,000,000 shares of our common stock. As of that date, 10,805,132,767 shares of our common stock were outstanding.

Your participation in the Stock Option Transfer Program is completely voluntary. Beginning on Wednesday, October 15, 2003, you will be able to access all information about the Stock Option Transfer Program through our Employee Election Tool. We will send you an email on Wednesday, October 15, 2003 that contains the hyperlink to the Employee Election Tool. If you do not receive the email, you may nevertheless access the Employee Election Tool, which will contain a hyperlink to this Notice. The Employee Election Tool will provide

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you with information about the number of Eligible Options you hold at each exercise price and the pricing for each grant of your Eligible Options at every possible Average Closing Price up to \$40.00. If you are on leave of absence as of the first day of the Election Period, we will mail you a paper copy of this Notice along with a list of the number of Eligible Options you hold at each exercise price.

**Requirement to Sell All or None.** If you elect to participate in the Stock Option Transfer Program and the Stock Option Transfer Program is not terminated as explained in Section 8 of the Terms and Conditions, all of your Eligible Options will be transferred JPMorgan. You will not be able to transfer less than all of your Eligible Options. For example, if you have three grants of options at exercise prices of \$30, \$35 and \$40 and you decide to participate in the Stock Option Transfer Program, all of the \$35 and \$40 options will be transferred. The \$30 options will not be transferred because \$30 options are not Eligible Options.

**Election Period.** You may elect to participate in or to withdraw from the Stock Option Transfer Program at any time during the period (the “**Election Period**”) beginning on Wednesday, October 15, 2003 and ending as of the Election Deadline currently scheduled to be Midnight, New York City/Eastern Time, on Wednesday, November 12, 2003. See Section 7 for a description of our rights to extend the Election Period and delay, terminate and amend the terms and availability of the Stock Option Transfer Program. Any election to participate or withdraw (either, an “**election**”) that is not properly submitted during the Election Period in accordance with Sections 5 and 6 will be void and will have no effect.

**Agreement to Amend Options to Enable Transfer.** Your stock options currently are not transferable. So that the Stock Option Transfer Program may proceed, our Board of Directors has unanimously authorized and approved the amendment of the Eligible Options of Eligible Employees who elect to participate in the Stock Option Transfer Program to permit the Eligible Options to be transferred to JPMorgan through the Stock Option Transfer Program. Your election to participate in the Stock Option Transfer Program, if not withdrawn prior to the Election Deadline, will constitute your agreement and consent to this amendment.

**Amendment of Options Transferred to JPMorgan.** All Eligible Options to be transferred to JPMorgan will be amended and restated pursuant to arrangements with JPMorgan described in Section 9. The amended and restated Eligible Options will have the following characteristics after transfer to JPMorgan.

- The Eligible Options will no longer be authorized under any employee benefit option plan.
- Other than the Multi-Year Grant Options, the Eligible Options will expire on the earlier of:
  - the existing expiration date for the Eligible Option, extended by the number of calendar days from (and including) December 5, 2003 to (but excluding) the last day of the Averaging Period; or
  - 36 months from the last day of the Averaging Period.
- The Multi-Year Grant Options will expire 24 months from the last day of the Averaging Period.
- The Eligible Options will contain terms and conditions typical of equity option transactions entered into between sophisticated financial counterparties at arm’s-length using standard terms and definitions for equity derivatives published by the International Swaps and Derivatives Association, Inc.

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The options originally issued as Multi-Year Grant Options are treated differently from other options. After transfer to JPMorgan, the Multi-Year Grant Options will have an expiration date earlier than other Eligible Options (except for other Eligible Options that currently have an expiration earlier than 24 months after the last day of the Averaging Period). An option with an earlier expiration date is less valuable than an option with a later expiration date. Thus, transfer of a Multi-Year Grant Option will entitle an Eligible Employee to less cash consideration than transfer of an Eligible Option with the same terms not issued as part of the Multi-Year Grant Options. Recipients of Multi-Year Grant Options are being treated differently with respect to those options because the recipients of those grants originally received significantly larger option grants than the typical annual grant for the recipient's Employee Level. In order not to distort the compensatory purposes of the Stock Option Transfer Program, the Board of Directors believes it is appropriate for Eligible Employees transferring Multi-Year Grant Options to receive less value than Eligible Employees transferring Eligible Options not issued as part of the Multi-Year Grant Options.

Transfer of Legal Title to Eligible Options. As of the Election Deadline, your election to participate in the Stock Option Transfer Program, if not withdrawn before the Election Deadline, will be binding on you to transfer and assign all of your right, title and interest in and to all of your Eligible Options to JPMorgan and will constitute your instruction to us to register on our books the transfer to JPMorgan of your Eligible Options, effective the date of transfer to JPMorgan, in accordance with Article 8 of the Uniform Commercial Code as adopted in Washington. The transfer to JPMorgan will not occur until payment by JPMorgan to us of an amount equal to the aggregate of all Total Payments for all Eligible Options transferred, which is scheduled to occur no later than three business days following the end of the Averaging Period. The transfer is subject to the condition that the Stock Option Transfer Program has not been terminated as explained in Section 8 of the Terms and Conditions.

Definitions. We use the following terms in this Notice:

- “**business day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business in U.S. Dollars in New York City.
- “**closing price**” means, with respect to our common stock on any Available Trading Day, the Official NASDAQ Closing Price of our common stock on such Available Trading Day.
- “**market disruption**” means, in respect of our common stock, the occurrence or existence of: (i) any suspension of or limitation imposed by Nasdaq, the Archipelago Exchange (“**ARCA**”), the Chicago Board Options Exchange (the “**CBOE**”) or otherwise on trading of our common stock or futures or options contracts relating to our common stock; (ii) any event (other than an event described in clause (iii) below) that materially disrupts or impairs the ability of market participants to effect transactions in, or obtain market value for, our common stock or futures or options contracts relating to our common stock at any time during the one hour period that ends the regular trading session of Nasdaq, ARCA or the CBOE; (iii) the closure of Nasdaq, ARCA or the CBOE on any trading day on which it is open for trading during its regular trading session, prior to its scheduled closing time unless such earlier closing time is announced by Nasdaq, ARCA or the CBOE, as the case may be, at least one hour prior to the earlier of (A) the actual closing time for the regular trading session or (B) the submission deadline for orders to be executed at the end of the regular trading session; or (iv) any trading day on which Nasdaq, ARCA or the CBOE, as the case may be, fails to open for trading during its regular trading session.
- “**trading day**” means any day (except November 28, 2003) on which Nasdaq, ARCA or the CBOE, as the case may be, is scheduled to be open for trading for its regular trading session.

## 2. Valuation Of Options; Average Closing Price; Valuation Based On Possible Average Closing Prices.

Valuation of Options. The Total Payment for your Eligible Options will consist of two components: the Initial Payment and the Contingent Payment(s). The principal considerations that we took into account in determining the pricing of Eligible Options and the terms of the Stock Option Transfer Program were our compensation goal for the Stock Option Transfer Program and the interests of our shareholders generally. We are making the Eligible Options transferable to JPMorgan with the goal of allowing our Eligible Employees to realize some value from their Eligible Options. We selected the factors that influenced the general pricing of the Eligible Options, including the expiration date of the Eligible Options after transfer to JPMorgan. See Section 1 for more information on the terms of the Eligible Options after transfer to JPMorgan.

Average Closing Price. The “**Average Closing Price**” means the arithmetic average (rounded up to the nearest 1/10,000 of a dollar) of the closing price of our common stock for every Available Trading Day during the Averaging Period. The “**Averaging Period**” means the period beginning no later than the first business day following the second calendar day after the Election Deadline and ending on and including the earlier of (i) Monday, December 15, 2003 or (ii) the 15th consecutive Available Trading Day. An “**Available Trading Day**” means a trading day on which (a) there is no market disruption, (b) Microsoft’s registration statement is available (pursuant to the terms of our agreements with JPMorgan) to be used by JPMorgan in connection with JPMorgan’s hedging activities (described below in Question 17 and in Section 10 of the Terms and Conditions), and (c) if JPMorgan so requests, we or our counsel has delivered a statement to JPMorgan regarding the availability of such registration statement. If the Averaging Period consists of five or fewer Available Trading Days, then the Stock Option Transfer Program will be terminated, in which case you will retain all of your Eligible Options on their current terms and conditions, the transfer of your Eligible Options will be rescinded and you will not be paid for any Eligible Options, regardless of whether you elected to participate in the Program.

Valuation based on possible Average Closing Prices. You will be able to determine the Total Payment that you may receive for your Eligible Options based on possible Average Closing Prices by referring to information available in the Employee Election Tool. You may use a table in the tool to determine the Total Payment for your Eligible Options based on a range of possible Average Closing Prices. The tool also has a calculator for determining the Total Payment for your Eligible Options for every possible Average Closing Price that you specify, up to \$40 per share. If you do not have access to the Employee Election Tool, you may contact Microsoft Stock Services by telephone at the phone number provided in Section 5 for assistance in obtaining the Pricing Information.

## 3. Payment For Eligible Options Transferred, Including Foreign Jurisdictions.

Payment for Eligible Options Transferred. All payments will be made to you less the appropriate tax withholding by the Company and similar deductions we determine are required. You will not receive any interest equivalent on the Initial Payment.



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*For all Eligible Employees except those employed in Australia, Canada, Czech Republic, Denmark, Finland, Germany, Hungary, India, Japan, Netherlands, Poland, Singapore, Spain, Trinidad & Tobago or Venezuela:*

**Expected Payment Schedule (% is of Total Payment)**

**And if you are continuously employed by Microsoft:**

If amount of the Total Payment is:	And if your Employee Level at the Election Deadline is:	Through the Election Deadline,	Throughout the two years from the last day of the Averaging Period,	Throughout the three years from the last day of the Averaging Period,
		Then, expected distribution no later than December 31, 2003:	Then, expected distribution no later than December 31, 2005:	Then, expected distribution no later than December 31, 2006:
		Initial Payment	First Contingent Payment Plus Interest Equivalent	Second Contingent Payment Plus Interest Equivalent
\$20,000 or less	Any	100%	N/A	N/A
\$20,000.01 or more	Levels 54-67	Greater of 33.33% or \$20,000	Remainder plus interest equivalent	N/A
	Levels 68+	Greater of 33.33% or \$20,000	50% of the remainder plus interest equivalent for this payment	The remaining amount plus interest equivalent for this payment

***For Eligible Employees employed in Czech Republic, Finland, Hungary, Poland or Trinidad & Tobago:***

Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

***For Eligible Employees employed in Australia, Canada, Denmark, India, Spain, or Venezuela:***

Employees at Level 67 or below as of the Election Deadline: Microsoft intends to pay 100% of the Total Payment no later than December 31, 2003.

Employees at Level 68 or above as of the Election Deadline: The Initial Payment will be a portion of the Total Payment equal to (1) the sum of (a) the top marginal income tax rate in the country in which you are employed expressed as a percentage and (b) 18%, multiplied by (2) the Total Payment. The first Contingent Payment, which we intend to pay no later than December 31, 2005, will be one-half of the remainder of the Total Payment. The second Contingent Payment, which we intend to pay no later than December 31, 2006, will be the other half of the remainder. The Contingent Interest Payment(s) will be based on the Contingent Payments as described in Section 2 of the Terms and Conditions.

***For Eligible Employees employed in Germany, Japan, Netherlands, or Singapore:***

As of the date of this Notice, the tax authorities in these countries have not provided guidance on the applicable tax treatment for your participation in the Program.

Payment Schedule If Favorable Tax Treatment: In the event that the tax authorities confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the generally applicable payment schedule for all Eligible Employees, provided in the table above.

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**Payment Schedule If Adverse Tax Treatment:** In the event that the tax authorities do not confirm that tax will be imposed only at the time of receipt of payment, your payment schedule will be the same as the payment schedule for Eligible Employees employed in Australia, Canada, Denmark, India, Spain or Venezuela, provided above.

**Additional information regarding payments.** No interest equivalent will be paid on Initial Payments. For all Contingent Interest Payments, we will credit to the Contingent Payment account the sum of all Contingent Payments payable to you, subject to your satisfactory completion of vesting period(s) applicable to each Contingent Payment. Beginning on the date JPMorgan is obligated to make payment to us for the transferred options and for the duration of the vesting period applicable to each Contingent Payment not yet paid to you, we will credit the Contingent Payment account an amount equivalent to interest earned monthly on each unpaid Contingent Payment at the three-month U.S. Treasury bill yield adjusted for a constant maturity, compounded monthly on an actual 365 day basis. For each Contingent Payment, this interest equivalent amount will be calculated using the period from the date JPMorgan is obligated to make payment to us for an amount equal to the aggregate of all Total Payments for all Eligible Options transferred, which is scheduled to occur no later than three business days following the end of the Averaging Period, through the date on which the Contingent Payment vests. For each Contingent Payment, the sum of these monthly credits to the Contingent Payment account as of the date they are credited to your account is the Contingent Interest Payment related to that Contingent Payment. We will make all determinations about the applicable interest rate and the amount of any Contingent Interest Payment.

The payment schedules described above assume that Microsoft will be able to make the Initial and Contingent Payment(s) on the next administratively feasible payroll date after the scheduled closing of the Stock Option Transfer Program and the scheduled vesting dates.

Microsoft reserves the right to accelerate one or more of the payment schedules if there is an adverse tax ruling or other regulatory action that would, in Microsoft's judgment taking into account the best interest of the affected employees, make it appropriate to accelerate the payment schedule.

The additional year of vesting required for the second Contingent Payment for Level 68 or above employees as of the Election Deadline is designed to provide an incentive for Level 68 and above employees to remain with us until 2006, which would coincide with the end of the period for measuring Company performance for purposes of the new Shared Performance Stock Award Program, our new long-term incentive program for Level 68 and above employees. The vesting dates, including the additional year of vesting, were chosen to coordinate the Contingent Payments for Level 68 and above employees with our current compensation program.

While the payment process for employees outside the United States may differ, all payments to all employees pursuant to the Stock Option Transfer Program, including all Initial Payments, Contingent Payments and Contingent Interest Payments, will be made as promptly as is administratively feasible.

If you are employed outside the United States, any payments made to you will be converted to your local payroll currency. If your payment is made through our payroll process, the conversion will use Microsoft's daily foreign exchange rate. If your payment is made directly to you outside of the payroll process, the conversion will use the market spot exchange rate on the date the payment is processed.

None of the payments you receive at any point as a result of transferring your Eligible Options will be considered compensation for purposes of any of the benefits we have provided, or are providing, to you. However, the funds received and taxes withheld for the transfer of the options to JPMorgan will be reported as required by Microsoft.

If your employment (including part-time employment or leave of absence) with us terminates for any reason after the Election Deadline, but before the date on which one or more of the Contingent Payments would have

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become payable, you will be paid the Initial Payment. If your employment (including part-time employment or leave of absence) with us terminates for any reason after the Election Deadline but before the date that one or more of the Contingent Payments would have become payable, you will forfeit any Contingent Payment that has not vested and any Contingent Interest Payment related to that Contingent Payment. **To receive the Initial Payment, you must remain employed with us until the Election Deadline. To receive a Contingent Payment, plus the Contingent Interest Payment related to that Contingent Payment, you must remain employed with us for the entire vesting period applicable to that Contingent Payment.** If your employment is terminated due to death or total and permanent disability, you or your estate will be entitled to receive any Contingent Payment that would have become payable had you remained employed for a period of 12 months after the date of your death or the date on which you ceased performing services as a result of total and permanent disability plus the Contingent Interest Payment related to that Contingent Payment. This payment, if applicable, will be made promptly following your death or termination of employment due to permanent disability.

#### **4. Purpose Of The Program.**

We believe that our greatest asset is our employees, and we are committed to providing competitive compensation packages. To keep our employees motivated and committed to the future of our company, we developed this opportunity for you to realize some value in cash for certain outstanding employee stock options with exercise prices at or above \$33.00 per share.

#### **5. Procedures.**

**Making Your Election.** If you wish to participate in the Stock Option Transfer Program, you must submit your election to participate prior to the Election Deadline in accordance with the instructions in this Notice (including, if applicable, additional instructions on a paper copy of the Election Form). Eligible Employees who are on a leave of absence will be sent a paper election packet with instructions about how to submit an election.

We have two different election procedure requirements, depending on the country in which you are employed.

If you are employed in the United States or any other country not listed in the next paragraph, you will be able to submit your election to participate:

- by following the instructions to make your election to participate in the Employee Election Tool on <https://stock> under the Option Transfer tab,

OR

- by faxing or mailing your completed paper copy of the Election Form, marked to indicate your election to participate, to Mellon Investor Services at (201) 329-8456 or to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.” Forms may be requested by contacting Microsoft Stock Services at (425) 706-8853 or by email at [compchg@microsoft.com](mailto:compchg@microsoft.com).

The same procedures are used to withdraw an election to participate, except that, if you do not use the Employee Election Tool to withdraw your election to participate, you will need to mark the Withdrawal Form to indicate your withdrawal.

If you are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey

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or Uruguay and you make your election to participate through the Employee Election Tool, for your election to be effective you also must complete an additional step to submit your election to participate:

- (1) elect to participate online through the Employee Election Tool on <https://stock> under the Option Transfer tab, and then
- (2) print and return a signed copy of your form (which will be presented to you via the Employee Election Tool) to Mellon Investor Services by facsimile at (201) 329-8456 or by mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.”

**In order for your election to be valid, Mellon Investor Services must RECEIVE your signed Election Form by the Election Deadline.**

Regardless of the country in which you are employed, if you are an Eligible Employee who is on leave of absence, you will be sent a paper election packet with instructions to follow. You must fax your completed paper copy of the Election Form, marked to indicate your decision to participate, to Mellon Investor Services in time to arrive by the Election Deadline. However, you may also elect to participate or to withdraw from participation using the Employee Election Tool by following the procedures set forth above.

**Submission of your election by any other method will NOT be accepted. You may change your election by properly submitting an election to participate or to withdraw from participation until the Election Deadline. After this deadline, no elections to participate or to withdraw will be accepted.**

**Submission of elections directly to Microsoft other than through the Employee Election Tool will NOT be accepted.**

To be timely, your election must be RECEIVED before the Election Deadline either by us via the Employee Election Tool or by Mellon Investor Services via facsimile at (201) 329-8456 or mail to “Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.” If you are employed in one of the countries listed above which requires you to return a signed copy of your form and you make your election using the Employee Election Tool, then in addition to your online election, Mellon Investor Services must RECEIVE the signed copy of your Election Form either by facsimile or by mail before the Election Deadline. You are responsible for any untimely or otherwise improper submission.

If you have questions about making an election, you may contact Microsoft Stock Services at (425) 706-8853 or send email to [compchg@microsoft.com](mailto:compchg@microsoft.com). You should review this Notice (including, if applicable, additional instructions on a paper copy of the Election Form) before making your election.

**Confirmation of Election.** Upon submission of an electronic Submitted Election via the Employee Election Tool, you will promptly receive a confirmation of your election through the Employee Election Tool unless you are employed in one of the countries where you are required to submit your election by completing the two-step process referred to above. We recommend you print this confirmation for your records. If you are employed in one of the countries where you are required to complete the two-step process, your participation status will be reflected in the Employee Election Tool, and you will be sent an email confirmation when your submitted election is complete and has been recorded in our system.

After the end of the Averaging Period, information about the amount of the Total Payment for your transferred Eligible Options will be available on <https://stock> under the Option Transfer tab. After January 1, 2004, information about the amount of the Contingent Payment(s) (if any) for your transferred Eligible Options will be available at the same location or by calling Microsoft Stock Services at (425) 706-8853.

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***Determination of Validity; Rejection of Election; Waiver of Defects; No Obligation to Give Notice of Defects.*** We will determine in our discretion questions about the eligibility of options, and the validity, form, and eligibility (including time of receipt) of Submitted Elections (including any changes of election). Our determination of these matters will be final and binding on all parties. We may reject any Submitted Elections (including changes of election) we determine were not properly made or submitted or if we determine your participation in the Stock Option Transfer Program would violate applicable law. Otherwise, unless the Stock Option Transfer Program is terminated as explained in Section 8 of the Terms and Conditions, properly and timely Submitted Elections that are not validly withdrawn will be accepted. We may waive any of the conditions for participation in the Stock Option Transfer Program or any defect or irregularity in any Submitted Elections (including changes of election) with respect to any particular Eligible Options or any particular Eligible Employee. No Eligible Options with respect to a particular Eligible Employee will be transferred until all defects or irregularities either have been cured by the Eligible Employee submitting his or her Submitted Election or have been waived by us. Neither we nor any other person is obligated to give notice of any defects or irregularities related to Submitted Elections, and no one will be liable for failing to give notice of any defects or irregularities.

### **6. Withdrawal Of Election To Participate.**

***Procedures to Withdraw.*** If you elect to participate in the Stock Option Transfer Program and you later want to withdraw your election to participate, you must submit your election to withdraw using one of the methods available for making an election to participate set forth in Section 5. If you are employed in the United States or any other country not listed in the following paragraph, you will be able to submit your election to withdraw through the Employee Election Tool, or by facsimile or mail to Mellon Investor Services at the facsimile number or address set forth in Section 5.

If you are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay and you make your election to withdraw through the Employee Election Tool, for your withdrawal to be effective you also must complete an additional step to submit your election to participate:

- (1) withdraw from participation online through the Employee Election Tool and then
- (2) print and return a signed copy of your form (which will be presented to you via the Employee Election Tool), marked to indicate your decision to withdraw, to Mellon Investor Services by facsimile or mail at the facsimile number or address set forth in Section 5.

**In order for your election to withdraw to be valid, Mellon Investor Services must RECEIVE your signed Withdrawal Form by the Election Deadline.**

If you do not have access to the online Employee Election Tool when you wish to withdraw your election, you will need to fax or mail your withdrawal form to Mellon Investor Services at the facsimile number or address set forth in Section 5 so that it is RECEIVED by the Election Deadline.

***Ability to Participate After Withdrawal.*** If you elect to withdraw your election to transfer your Eligible Options and you later decide you want to participate in the Stock Option Transfer Program and transfer your Eligible Options, you may elect to participate as long as you submit your election to participate in accordance with the instructions in Section 5 and we receive your Submitted Election by the Election Deadline. Submission of your election by any other method will not be accepted.

Neither we nor any other person is obligated to give you notice of any defects or irregularities in any Submitted Election or change of Submitted Election, and we will not be liable for failing to give notice of any defects or irregularities. We will make a determination of all ambiguities as to the form and validity, including

time of receipt, of a Submitted Election and change of Submitted Election. Our determinations of these matters will be final and binding.

## 7. Extension Of Election Period; Reduction Of Averaging Period.

If at any time during the Election Period, an Election Period Extension Event occurs, we may extend the Election Period; *provided* that the Election Period shall not be extended beyond November 28, 2003.

If an Election Period Extension Event occurs, we will use our reasonable best efforts to remedy the Election Period Extension Event as promptly as practicable, including by making all filings (including without limitation on Form 8-K under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) necessary to cause the Election Period Extension Event to terminate.

An “**Election Period Extension Event**” means the occurrence of:

- an event (or existence of a condition) that has caused this Notice or the Employee Election Tool or the Election Form to include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or
- a Stock Option Transfer Program Disruption Event.

A “**Stock Option Transfer Program Disruption Event**” means:

- any action or proceeding, or pending action or proceeding, by any government agency, authority or tribunal or any other person, domestic or foreign, directly or indirectly, that prohibits the Stock Option Transfer Program or the transfer of the Eligible Options pursuant to the Stock Option Transfer Program, that in each case is reasonably expected to succeed and, if successful, is reasonably expected to materially and adversely affect the Stock Option Transfer Program taken as a whole; or
- any action taken, or any approval withheld, by any court or any authority, agency or tribunal that would, directly or indirectly, make it illegal for a substantial number of our Eligible Employees to transfer their Eligible Options, for JPMorgan to make payment to us or otherwise prohibit full performance of the transactions contemplated in the Stock Option Transfer Program, that in each case would be reasonably expected to materially and adversely affect the Stock Option Transfer Program taken as a whole.

We may also, at any time prior to the Election Deadline, request that JPMorgan agree to an extension of the Election Deadline for any reason (other than the occurrence of an Election Period Extension Event). JPMorgan is required to consider such request in good faith and not unreasonably withhold its consent to such extension; however, the Election Period may not be extended beyond November 28, 2003.

An extension of the Election Period may reduce the number of trading days used in determining the Average Closing Price. Likewise, the occurrence of a market disruption during the Averaging Period could reduce the number of days available for the Averaging Period and thus increase the likelihood that the Stock Option Transfer Program could be terminated as described in Section 8 of the Terms and Conditions.

If we extend the Election Period, we will publicly announce the extension no later than 9:00 a.m., New York City/Eastern Time, on the day following the date the period would have expired if not extended.

Any determination we make concerning the events described in this Section 7 will be final and binding on all parties.

## **8. Stock Option Transfer Program Conditions And Termination Events.**

Consummation by Microsoft of the Stock Option Transfer Program, including acceptance of Eligible Options by Microsoft, is subject to the satisfaction or waiver of several conditions, not all of which will be satisfied or waived prior to the Election Deadline. The conditions include:

- the absence of a Stock Option Transfer Program Disruption Event, described in Section 7 of the Terms and Conditions;
- the absence of a termination of any of the Stock Option Transfer Program transaction documents between JPMorgan and Microsoft, described in Section 9 of the Terms and Conditions;
- performance by Microsoft and JPMorgan in all material respects of their obligations under the transaction documents described in Section 9 of the Terms and Conditions;
- the accuracy in all material respects of the representations and warranties regarding due authorization, validity, enforceability, noncontravention and other similar matters made by Microsoft and JPMorgan in the Stock Option Transfer Program documents; and
- the absence of governmental action that would make JPMorgan's hedging activities (as described in Section 9 of the Terms and Conditions) illegal.

All conditions must be satisfied or waived at or before the consummation of the Stock Option Transfer Program, which occurs when JPMorgan pays Microsoft for the Eligible Options.

The Stock Option Transfer Program may be terminated by JPMorgan or Microsoft under certain circumstances. Except as noted, termination may occur after the Election Deadline. The circumstances under which the Stock Option Transfer Program may be terminated include:

- the mutual written agreement of Microsoft and JPMorgan;
- by Microsoft during the Election Period if any event or events occur that have resulted or may result, in Microsoft's reasonable judgment, in a material impairment of the contemplated compensatory objectives of the Program;
- by either Microsoft or JPMorgan if the Averaging Period consists of five or fewer Available Trading Days; or
- by JPMorgan if the Election Period is extended beyond November 28, 2003.

The Stock Option Transfer Program cannot be terminated at or after the closing of the Program Agreement, which occurs when JPMorgan is obligated to pay Microsoft for the Eligible Options. If not consummated by March 24, 2004, the Stock Option Transfer Program will be terminated.

If the Stock Option Transfer Program is so terminated, you will retain all of your Eligible Options on their current terms and conditions, the transfer of your Eligible Options will be rescinded and you will not be paid for any Eligible Options, regardless of whether you elected to participate in the Stock Option Transfer Program.

Any determination we make concerning the events described in this Section 8 will be final and binding on all parties.

## 9. Role Of JPMorgan In The Program; Hedging Activities Conducted By JPMorgan; Arrangements With JPMorgan.

*Role of JPMorgan.* If the Stock Option Transfer Program is not terminated as explained in Section 8 of the Terms and Conditions, JPMorgan will receive amended and restated options pursuant to the Stock Option Transfer Program and JPMorgan will deliver payment to us in an amount equal to the aggregate of all Total Payments for all Eligible Options transferred. These events are scheduled to occur no later than three business days following the end of the Averaging Period.

JPMorgan has no obligations to you under the Stock Option Transfer Program. Only we are obligated to make any payments to you for any Eligible Options that you elect to transfer under the Stock Option Transfer Program, including the Initial Payment, Contingent Payment(s) and Contingent Interest Payment(s). JPMorgan is obligated to pay us an amount equal to all Total Payments for all Eligible Options transferred, upon consummation of the Stock Option Transfer Program.

The pricing of every Eligible Option was determined by negotiations between Microsoft and JPMorgan in part by reference to Black-Scholes and other option pricing models.

*Hedging Activities Conducted by JPMorgan.* JPMorgan has informed us that it intends to enter into market transactions to hedge its exposure to the ownership of the Eligible Options, as amended and restated. These market transactions will include sales of our common stock that will take place during the Averaging Period pursuant to a registration statement that we filed with the SEC.

During the Averaging Period, JPMorgan expects to sell shares of our common stock pursuant to the registration statement to establish its desired hedge position. JPMorgan expects to sell approximately equal numbers of shares on each day during the Averaging Period. These sales could have the effect of decreasing the market price of our common stock. If these sales decrease the market price of our common stock during the Averaging Period, this would cause you to receive a lower price for your Eligible Options under the Stock Option Transfer Program.

During the Election and Averaging Periods and after the end of the Averaging Period, JPMorgan also expects to sell additional shares pursuant to the registration statement to comply with regulatory requirements. These additional shares, together with the shares JPMorgan sells to establish its desired hedge position, will equal the total number of shares underlying all Eligible Options that are transferred under the Stock Option Transfer Program. The sales of these additional shares will not be made to establish a hedge position. As a result, JPMorgan expects to purchase a number of shares in secondary market transactions approximately equal to the number of these additional shares it sells, on the same days it sells additional shares, so that JPMorgan will be in its desired hedge position after taking into account all such additional sales and corresponding purchases. The number of shares purchased may be a significant percentage of the number of shares sold under the registration statement and, depending on market factors and the terms of the transferred options, is likely to represent substantially more than half of the total number of shares sold under the registration statement. The sales and purchases that are not made to establish JPMorgan's hedge position may take place before, during and after the Averaging Period.

During the Averaging Period and after the end of the Averaging Period, JPMorgan also may buy or sell additional shares of our common stock or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to the Eligible Options. JPMorgan also may be active in the market for our common stock other than in connection with hedging activities in relation to the Stock Option Transfer Program. JPMorgan will make its own determination as to whether, when or in what manner any hedging or market activities in our securities will be conducted. Any of JPMorgan's market activities with respect to our common stock may affect the market price and volatility of our common stock.



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The following summaries are qualified in their entirety by reference to the complete text of the agreements, which are included as exhibits to the Schedule TO filed by us with the SEC on October 15, 2003:

*Arrangements with JPMorgan.* We have entered into the following agreements with JPMorgan that relate to the role and activities of JPMorgan in connection with the Stock Option Transfer Program, including the advisory role of JPMorgan, its market activities in connection with the registration agreement as described in this Section 9 under “Hedging Activities Conducted by JPMorgan,” and the amendment and restatement of Eligible Options transferred to JPMorgan under the Program to conform them with the terms of stock options that are traded in the over-the-counter market, as described in Section 1 under “Amendment of Options Transferred to JPMorgan.” In addition, as explained in the answers to Questions 9, 16, and 24 and above in this Section 9, we determined the Pricing Information pursuant to negotiations between JPMorgan and us.

- *Engagement Letter.* We have entered into an engagement letter with J.P. Morgan Securities Inc. under which we have obtained financial advisory services from J.P. Morgan Securities Inc. in connection with structuring, analyzing and evaluating the Stock Option Transfer Program. In exchange for these services, we agreed to designate J.P. Morgan Securities Inc. as the exclusive counterparty in the Stock Option Transfer Program and to pay JPMorgan an amount of up to \$15 million, to be paid as follows: (i) an engagement fee of \$6,000,000, (ii) an execution fee of \$4,000,000 if more than 50% of the Eligible Options are transferred under the Program, and (iii) a supplemental execution fee of \$5,000,000 if more than 75% of the Eligible Options are transferred under the Program. We will not know the total amount to be paid to JPMorgan under the engagement letter until after the Election Deadline.
- *Program Agreement.* We have entered into a program agreement with JPMorgan, under which we have established certain structural terms related to the Stock Option Transfer Program (excluding the terms of our payments to our employees), as described in this Notice. These structural terms include the Pricing Information, the length of the Election Period and Averaging Period, the modifications that would be made to the Eligible Options upon transfer to JPMorgan, and the events that may result in an extension of the Election Period or termination of the Program. We have agreed to indemnify JPMorgan for certain liabilities related to the Stock Option Transfer Program, including liabilities relating to our withdrawal or termination of the Stock Option Transfer Program or our failure to comply with the terms of this Notice, liabilities under federal securities laws relating to this Notice and certain other disclosure documents related to the Stock Option Transfer Program, and liabilities resulting from breaches of representations and warranties made by us to JPMorgan regarding the Stock Option Transfer Program. We have also agreed to reimburse JPMorgan for some or all of its losses incurred in connection with various market activities if the Stock Option Transfer Program is terminated or if the Averaging Period is composed of fewer than 15 days and JPMorgan agreed to pay us some or all of its gains from such market activities.
- *Option Revisions.* We have agreed with JPMorgan to amend the terms of the Eligible Options from those established under the employee stock option plans to those typically found in options traded over-the-counter.
- *Registration Agreement.* We have entered into a registration agreement with JPMorgan and J.P. Morgan Securities Inc., under which we have agreed to take certain steps (including, among other things, filing with the SEC a registration statement) in order to enable J.P. Morgan Securities Inc. to make sales of up to 635,000,000 shares of our common stock. This registration statement initially was filed on September 16, 2003. The number of shares that J.P. Morgan Securities Inc. offers will be equal to the number of shares underlying all of the Eligible Options that are transferred under the Stock Option Transfer Program. We have agreed to pay JPMorgan a fee of \$0.02 for each of our shares sold by J.P. Morgan Securities Inc. under the registration statement, not in excess of the number of shares underlying all options transferred under the program. We will not know the total amount of this fee until after the Election Deadline.

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**10. Price Range Of Microsoft Common Stock.**

Our common stock is quoted on Nasdaq under the symbol "MSFT." The following table shows, for the quarters and fiscal years indicated, the high and low sales prices per share of our common stock as reported by Nasdaq. The prices in this table have been adjusted to reflect the 2-for-1 stock split that was effective February 18, 2003.

Quarter ended:	High	Low
<u>Fiscal Year 2004</u>		
September 30, 2003	\$ 29.96	\$ 25.54
<u>Fiscal Year 2003</u>		
June 30, 2003	\$ 26.38	\$ 23.67
March 31, 2003	\$ 28.49	\$ 22.79
December 31, 2002	\$ 29.12	\$ 21.89
September 30, 2002	\$ 27.43	\$ 21.42
<u>Fiscal Year 2002</u>		
June 30, 2002	\$ 30.19	\$ 24.31
March 31, 2002	\$ 34.93	\$ 29.00
December 31, 2001	\$ 34.75	\$ 25.90
September 30, 2001	\$ 36.29	\$ 24.86
<u>Fiscal Year 2001</u>		
June 30, 2001	\$ 36.84	\$ 25.97
March 31, 2001	\$ 32.35	\$ 21.69
December 31, 2000	\$ 35.44	\$ 20.75
September 30, 2000	\$ 41.00	\$ 30.16

As of October 14, 2003, the last reported sale price of our common stock, as reported by Nasdaq, was \$28.68 per share.

**11. Source And Amount Of Consideration.**

The funds used to pay the cash consideration for Eligible Options will come from our cash on hand. We expect to receive from JPMorgan an amount equal to the aggregate of all Total Payments for all Eligible Options transferred, but receipt of those funds is not a condition of our obligation to pay you cash consideration for your transfer. As of September 30, 2003, approximately 624,000,000 Eligible Options are held by approximately 37,000 Eligible Employees. It is not possible to determine the aggregate of all Total Payments that will be required to be made for Eligible Options transferred because we do not know how many Eligible Options will be transferred under the Stock Option Transfer Program, what the exercise prices will be of the Eligible Options transferred, or what the Average Closing Price during the Election Period will be. The following table illustrates the Total Payments at different Average Closing Prices if all of the Eligible Options were transferred under the Stock Option Transfer Program.

	At Average Closing Price		
	\$ 22.00	\$ 27.00	\$ 32.00
Total Payments for all Eligible Options	\$ 313,000,000	\$ 919,000,000	\$ 1,975,000,000

## **12. Information About Microsoft, Including Summary Financial Information.**

We were founded as a partnership in 1975 and incorporated in 1981. Our mission is to enable people and businesses throughout the world to realize their full potential, and our vision is empowering people through great software – any time, any place, and on any device. We develop, manufacture, license, and support a wide range of software products for a multitude of computing devices. Our software products include scalable operating systems for servers, personal computers (PCs), and intelligent devices; server applications for client/server environments; information worker productivity applications; business solutions applications; and software development tools. We provide consulting services and product support services and train and certify system integrators and developers. We sell the Xbox video game console, along with games and peripherals. Our online businesses include MSN subscriptions and the MSN network of Internet products and services.

We also research and develop advanced technologies for future software products. A significant portion of our focus is on our .NET architecture. Using common industry standards based on Extensible Markup Language (XML), a universal language for describing and exchanging data, our goal is to enable seamless sharing of information across many platforms and programming languages, and over the Internet, with XML Web services. In addition, we have embarked on a long-term initiative called Trustworthy Computing that aims to bring an enhanced level of security, privacy, reliability, and business integrity to computer systems.

On January 16, 2003, we declared our first annual dividend of \$0.08 per share of common stock, payable March 7, 2003, to our shareholders of record at the close of business on February 21, 2003. On September 12, 2003, we declared our second annual dividend of \$0.16 per share of common stock, payable November 7, 2003, to our shareholders of record at the close of business on October 17, 2003.

Microsoft has no current plans or proposals relating to any of the following: (i) any extraordinary transaction, such as a merger, reorganization or liquidation; (ii) any purchase, sale or transfer of a material amount of assets; (iii) any change in the present board of directors or management except for expansion of the Microsoft Board of Directors from eight to ten members; (iv) any other material change in Microsoft's corporate structure or business; (v) any class of Microsoft's common stock losing authorization to be quoted on Nasdaq; (vi) except pursuant to the Stock Option Transfer Program, the registered sale of common stock under Form S-3 in connection with the Stock Option Transfer Program, and Microsoft's employee stock plans and benefit plans, the acquisition by any person of additional securities of Microsoft, or the disposition of securities of Microsoft; and (vii) any changes in Microsoft's articles of incorporation or bylaws or other actions that could impede the acquisition of control of Microsoft.

Our principal executive offices are located at One Microsoft Way, Redmond, Washington 98052-6399, and our telephone number is (425) 882-8080. However, if you have any questions regarding the Stock Option Transfer Program, you may contact Microsoft Stock Services at (425) 706-8853 or email [compchg@microsoft.com](mailto:compchg@microsoft.com).

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### Summary Financial Information (in millions, except for per share data)

Set forth below is a selected summary of our financial information for the years ending June 30, 2002, and June 30, 2003. The summary financial information was derived from our financial statements included in our annual report in Item 8 on Form 10-K for the fiscal year ended December 31, 2003, and should be read together with the financial statements and related notes included in that report. Since the selected summary financial information set forth below is not accompanied by an audit report, it is considered unaudited.

Year ended June 30	2002 <sup>(2)</sup>	2003 <sup>(3)</sup>
Revenue	\$ 28,365	\$ 32,187
Operating income	11,910	13,217
Net income	7,829	9,993
Basic earnings per share <sup>(1)</sup>	0.72	0.93
Diluted earnings per share <sup>(1)</sup>	0.70	0.92
Current assets	48,576	58,973
Noncurrent assets	19,070	20,598
Current liabilities	12,744	13,974
Noncurrent liabilities	2,722	4,577

(1) Earnings per share have been restated to reflect a two-for-one stock split in February 2003.

(2) Fiscal year 2002 includes \$4.32 billion (pre-tax) in impairments of certain investments, primarily related to our AT&T investment and further declines in the fair values of European cable and telecommunications holdings, and a \$1.25 billion (pre-tax) gain on the sale of Expedia, Inc.

(3) Fiscal year 2003 includes \$1.15 billion (pre-tax) in impairments of certain investments.

### 13. Interests Of Directors And Officers; Transactions And Arrangements.

A list of our directors and executive officers, together with their aggregate Eligible Option holdings, is attached to this document as Schedule A. As of September 30, 2003, our executive officers and non-employee directors (22 persons) as a group held Eligible Options to purchase a total of 41.5 million shares of our common stock. This represented approximately 6.6% of the shares subject to all Eligible Options. We do not know if any of our executive officers will participate in the Stock Option Transfer Program. Members of our Board of Directors are not eligible to participate in the Stock Option Transfer Program. Messrs. Ballmer and Gates do not own any options to purchase our common stock.

Neither we, nor, to the best of our knowledge, any of our directors or executive officers, nor any affiliates of us or our directors or executive officers, have engaged in transactions involving Eligible Options during the 60 days prior to this Notice.

There is no agreement, arrangement or understanding between Microsoft, or, to the best of our knowledge, any of our executive officers or members of the Board of Directors, and any other person for the purchase or acquisition from Microsoft of any of our securities, except for the following as of September 30, 2003:

- outstanding options to purchase an aggregate of 47,606,410 shares of common stock pursuant to our 1991 Stock Option Plan, as amended;
- outstanding options to purchase an aggregate of 22,083,400 shares of common stock pursuant to our 2001 Stock Plan;

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- outstanding options to purchase an aggregate of 1,120,000 shares of common stock pursuant to our option plans for non-employee directors. These options to purchase our shares that are owned by members of the Board of Directors are not eligible to be transferred in the Stock Option Transfer Program; and
- plans providing for the sale of up to 20,372,000 shares of common stock, pursuant to plans under Rule 10b5-1 under the Securities Exchange Act of 1934.

### **14. Status Of Eligible Options Transferred; Accounting Consequences To Microsoft Of The Program.**

Eligible Options that are transferred under the Stock Option Transfer Program will be amended and transferred to JPMorgan to hold until it either exercises the options or the options expire. JPMorgan will not be able to transfer or sell the options it acquires through the Stock Option Transfer Program to any third party, other than to its affiliates. If the options expire without being exercised, the shares of common stock that may be purchased under those options will not be returned to the Option Plans. The primary effect on us of the Stock Option Transfer Program will be a charge to earnings related to unrecognized compensation cost of unvested Eligible Options transferred in the Stock Option Transfer Program.

### **15. Legal Matters; Regulatory Approvals.**

We are not aware of any pending legal proceedings relating to the Stock Option Transfer Program, any license or regulatory permit that appears to be material to our business that might be adversely affected by the Stock Option Transfer Program, or any approval or other action by any government or regulatory authority or agency that is required (but has not been obtained) for participation in the Stock Option Transfer Program, except for certain exemptive or notice filings that may be required in certain countries outside the U.S. We have made certain applications to clarify the tax treatment of the Stock Option Transfer Program in certain countries outside the U.S. and certain exemptive exchange control and securities filings that are required or advisable to offer the Stock Option Transfer Program in certain countries outside the U.S. If any other approval or action, exemptive filing or notice filing should be required, we will use reasonable efforts to seek the approval, take the action or make such filing. If a Stock Option Transfer Program Disruption Event occurs, we may extend the Election Period, delay the performance of the transactions contemplated in the Stock Option Transfer Program, or terminate the Stock Option Transfer Program, as described in Sections 8 and 9. We cannot assure you that we would be able to obtain any required approval, take any other required action or make any required filing in connection with the Stock Option Transfer Program. In addition, our failure to obtain any required approval, take any required action or make any required filing in connection with the Stock Option Transfer Program might result in harm to our business.

Holders of Eligible Options who are employed in Belgium, Italy or Pakistan are not eligible to participate in the Stock Option Transfer Program. If at any time, we become aware of any jurisdiction where participation in the Stock Option Transfer Program according to its current terms violates the law, we will make a good faith effort to comply with the law. If we cannot comply with the law, the Stock Option Transfer Program will not be made available to the otherwise Eligible Employees employed in that jurisdiction.

If we are prohibited by applicable laws or regulations from offering the Stock Option Transfer Program or required to obtain a license or regulatory permit or make any other filing before offering the Stock Option Transfer Program in a particular country, we will not offer the Stock Option Transfer Program in that country, unless we obtain the necessary license or make the requisite filing.

### **16. Material U.S. Federal Income And Other Tax Consequences.**

The following is a general summary of the material U.S. federal income tax consequences of the Stock Option Transfer Program. This summary does not discuss all of the tax consequences that may be relevant to you

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in light of your particular circumstances. This summary also does not address the federal employment, state, local and foreign tax consequences of the Stock Option Transfer Program. Before deciding whether to transfer your Eligible Options under the Stock Option Transfer Program, we recommend that you consult with your tax advisor to determine the tax consequences of such a decision.

We have requested a ruling from the Internal Revenue Service confirming the U.S. federal income tax consequences described below. However, this ruling will not address whether the availability of the Stock Option Transfer Program will be characterized by the IRS as a “modification” resulting in the incentive stock options that are Eligible Options being treated as nonqualified stock options. You can determine if you hold incentive stock options by checking the Employee Election Tool. If you have further questions you should consult your own tax advisor.

**Employees Who Transfer Options.** If you elect to transfer your Eligible Options under the Stock Option Transfer Program, we believe that you will recognize ordinary income for U.S. federal income tax purposes on any payment you receive under the Stock Option Transfer Program upon receipt of the payment. The payments may also be subject to other taxes, such as federal employment, state, local and foreign taxes.

All payments will be made to you less the appropriate tax withholding by the Company and similar deductions that we determine are required. Depending on your personal tax situation, you may owe U.S. federal income taxes on the payments in excess of the amounts withheld.

When you recognize ordinary income for U.S. federal income tax purposes on a payment, we would generally be entitled to a corresponding U.S. federal income tax deduction.

**Employees Who Do Not Transfer Options.** We believe that you will not be subject to current U.S. federal income tax if you decide to keep your Eligible Options. In particular with respect to your eligible incentive stock options, we do not believe that our making the Stock Option Transfer Program available to you will change any of the terms of such options. However, if you hold incentive stock options, the IRS may characterize the availability of the Stock Option Transfer Program as a “modification” of your incentive stock options, even if you decline to transfer your Eligible Options. A successful assertion by the IRS that the incentive stock options are modified could cause the options to be treated as nonqualified stock options. If you exercise your Eligible Options in the future, you may be subject to U.S. federal income tax at such time.

### **17. Material Tax Consequences For Jurisdictions Outside The United States.**

Please refer to the Guide To Issues In Countries Other Than The United States at the end of this Notice for a country-specific description of the potential tax consequences in the country in which you are subject to tax.

### **18. Fees And Expenses.**

We are not paying any solicitation fees or commissions to any broker, dealer or other person to ask our Eligible Employees holding Eligible Options to transfer Eligible Options through this Stock Option Transfer Program.

We estimate our expenses in connection with the Stock Option Transfer Program (including filing, legal and accounting fees, and printing costs) will total approximately \$4.5 million. This amount does not include the fees payable to JPMorgan under the registration agreement and the engagement letter, which will vary based on the total number of Eligible Options transferred under the Program. See Section 9 for a description of fees payable to JPMorgan.

### **19. Additional Information.**

We have filed a Tender Offer Statement on Schedule TO with the SEC on October 15, 2003 with respect to the Stock Option Transfer Program. This document is part of the Schedule TO. This document does not contain

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all of the information contained in the Schedule TO and the exhibits to the Schedule TO. You may want to review the Schedule TO, including the exhibits, before making a decision about whether to participate in the Program and transfer your Eligible Options.

We recommend that, before making a decision whether to participate in the Stock Option Transfer Program, you read our annual report for our fiscal year ended June 30, 2003, along with any reports we have subsequently filed with the SEC. In particular, we recommend you review our financial statements for our fiscal years ended June 30, 2003 and June 30, 2002 that are provided in Item 8 (“Financial Statements and Supplementary Data”) on Form 10-K, filed with the SEC on September 5, 2003. Item 8 of our Form 10-K is incorporated herein by reference.

Our Form 10-K and other SEC filings can be found on our web site. The SEC file number for our filings is 000-14278. Our filings with the SEC are available on the SEC’s Internet site at <http://www.sec.gov>. These filings may also be examined, and copies may be obtained, at the following SEC public reference room:

450 Fifth Street, N.W.  
Room 1024  
Washington, D.C. 20001

You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330.

Our common stock is quoted on Nasdaq under the symbol “MSFT,” and our SEC filings can be read at the following Nasdaq address:

Nasdaq Operations  
1735 K Street, N.W.  
Washington, D.C. 20006.

We will provide without charge to each person to whom we deliver a copy of this Notice, upon their written or oral request, a copy of any or all of the documents to which we have referred in this Section 19, other than exhibits to these documents (unless the exhibits are specifically incorporated by reference into the documents). Requests should be directed by mail to:

Investor Relations Department  
Microsoft Corporation  
One Microsoft Way  
Redmond, WA 98052-6399

or by email to [msft@microsoft.com](mailto:msft@microsoft.com) or by telephone to (800) 285-7772 (toll-free) or (425) 706-4400 (from outside the United States), during regular business hours Pacific Time.

As you read the documents listed in this Section 19, you may find some inconsistencies in information from one document to another. Should you find inconsistencies between the documents, or between one of these documents and this Notice, you should rely on the statements made in the most recent document.

The information contained in this Notice about us should be read together with the information contained in the documents to which we have referred you.

Microsoft Corporation      October 15, 2003

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**SCHEDULE A****Information About The Directors And Executive Officers Of Microsoft Corporation**

The following table sets forth, as of September 30, 2003, information about the Eligible Option holdings of our executive officers and directors. Our directors are not eligible to participate in the Stock Option Transfer Program. Except as otherwise indicated, the business address and phone number of each such director and executive officer is Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399 and (425) 882-8080.

<b>Name, Title, Address and Phone No.</b>	<b>Aggregate No. of Eligible Options</b>	<b>Percent of Outstanding Eligible Options</b>
<b>DIRECTORS</b>		
*William H. Gates III Chairman Chief Software Architect	None	—
*Steven A. Ballmer Chief Executive Officer Director	None	—
Dr. James I. Cash, Jr., Ph.D. Director	None	—
Raymond V. Gilmartin Director	None	—
Ann McLaughlin Korologos Director	None	—
David F. Marquardt Director	None	—
Wm. G. Reed Jr. Director	None	—
Jon A. Shirley Director	None	—

\*Also an executive officer

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<b>Name, Title, Address and Phone No.</b>	<b>Aggregate No. of Eligible Options</b>	<b>Percent of Outstanding Eligible Options</b>
<b>EXECUTIVE OFFICERS</b>		
James E. Allchin Group Vice President, Platforms Group	6,000,000	0.96%
Robert J. (Robbie) Bach Senior Vice President, Home and Entertainment	3,096,000	0.50%
Douglas J. Burgum Senior Vice President, Microsoft Business Solutions	None	—
David W. Cole Senior Vice President, MSN and Personal Services Group	3,144,000	0.50%
John G. Connors Senior Vice President; Chief Financial Officer	3,128,000	0.50%
Jean-Philippe Courtois Senior Vice President; Chief Executive, Microsoft Europe, Middle East, and Africa	3,160,000	0.51%
Kenneth A. DiPietro Corporate Vice President, Human Resources	None	—
Kevin R. Johnson Group Vice President, Worldwide Sales; Marketing and Services	2,404,000	0.39%
Michelle J. (Mich) Mathews Corporate Vice President, Marketing	1,520,000	0.24%
Craig J. Mundie Senior Vice President, Chief Technical Officer, Advanced Strategies and Policy	3,189,200	0.51%
Jeffrey S. Raikes Group Vice President, Productivity and Business Services	6,000,000	0.96%
Eric D. Rudder Senior Vice President, Server and Tools	3,256,000	0.52%
Bradford L. Smith Senior Vice President, General Counsel and Secretary	1,919,200	0.31%
David Vaskevitch Senior Vice President, Chief Technical Officer, Business Platforms	4,644,000	0.74%

## A GUIDE TO ISSUES IN COUNTRIES OTHER THAN THE UNITED STATES

### Microsoft Corporation

#### Stock Option Transfer Program: A Guide to Issues in Argentina

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Argentina. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

#### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

#### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

#### **Stamp Tax**

If you work outside of Buenos Aires, a stamp tax may apply upon execution of documents in connection with the Stock Option Transfer Program. The tax is paid upon execution of the documents, and both the rate and the term for payment will depend on the particular province. If you work in Buenos Aires, you are exempt from the stamp tax.

#### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

#### **Securities Information**

This offer is private and is not subject to the supervision of any Argentine governmental authority.

### Microsoft Corporation

#### Stock Option Transfer Program: A Guide to Issues in Australia

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Australia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible

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Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

The tax consequences that are summarized below assume that you did not make an election to be taxed in the income year of grant of the Eligible Options. If you elected to be taxed on your Eligible Options at the time of grant, you should confirm your tax liability with your personal tax advisor.

### **Election to Participate / Amendment of Eligible Options**

It is likely that you will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Total Payment Schedule**

To ensure that you will be able to pay the income tax and any applicable Medicare levy and surcharge tax due on the Initial Payment (as described below), Microsoft has decided to pay the Total Payment to you as the Initial Payment on or before December 31, 2003, unless your Employee Level is 68 or above. This means that, regardless of whether the amount of your Total Payment is less or greater than US\$20,000, the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), again, unless your Employee Level is 68 or above.

If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Australia plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments.

Therefore, regardless of your Employee Level, you will be able to pay the income tax, any applicable Medicare levy and surcharge tax due on the Initial Payment.

### **Receipt of Total Payment**

Your tax consequences will depend on whether the Stock Option Transfer Program is regarded as an arm's length transaction or a non-arm's length transaction under Australian tax law. Microsoft is currently in negotiations with the Australian tax authorities to clarify this issue and confirm the tax treatment. Please check with Microsoft or your employer on the outcome of the negotiations and the applicable tax treatment. In addition, we strongly recommend that you also confirm your tax liability and the likely outcome of the negotiations with your personal tax advisor.

### Non-Arm's Length Transaction.

It is likely that the Stock Option Transfer Program will not be regarded as an arm's length transaction under Australian tax law. Therefore, it is likely that your tax consequences will be as follows:

#### *(i) Tax on Transfer Date.*

You are required to include in your assessable income the market value of your Eligible Options (the "Market Value") in the year of income (*i.e.*, the financial year ending June 30) in which the Eligible Options are transferred to JPMorgan (the "Transfer Date").

The Market Value which is subject to tax will be determined as follows:

To the extent the option price of the Eligible Options exceeds the current market value of the underlying shares (as defined under Australian tax law) at the time of the transfer, the Market Value will be determined in

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accordance with a statutory formula. Under this formula, you will not have any taxable income with respect to the transfer of the Eligible Options if the market value of the underlying shares at the time of transfer is less than 50% of the option price.

The Market Value for each grant of Eligible Options must be calculated separately. This calculation will depend on the Eligible Option's option price and remaining option term. In order to determine your total tax liability, your tax liability for each grant of Eligible Options must be aggregated. We recommend that you check with your personal tax advisor or your employer to determine the Market Value of your Eligible Options.

### *(ii) Receipt of Contingent Payments.*

If your Employee Level is 68 or above and, therefore, your Total Payment will be divided into an Initial Payment and into two Contingent Payments, you will likely be subject to capital gains tax on receipt of the Contingent Payments (including any Contingent Interest Payments) as follows:

If and when you receive the Contingent Payments on the vesting dates, you will realize either a capital gain or a capital loss depending on whether the cost base of the "contingent right" to the Contingent Payment is greater than or less than the actual Contingent Payment (including any Contingent Interest Payment) received on the vesting date. The cost base of the "contingent right" is equal to the market value of the right on the day that it is acquired (*i.e.*, the Transfer Date), as determined by an independent valuation. The market value of the contingent right is based on the amount of the Contingent Payment you are entitled to receive, but this amount will be decreased to take into account the risk of forfeiture which applies to the Contingent Payment.

The capital gain made on the disposal of the contingent right (*i.e.*, if and when you receive the Contingent Payments) may qualify for the 50% discount because the contingent right will be held for more than 12 months if the requirements in Division 115 of the *Income Tax Assessment Act 1997* are met.

If your employment terminates prior to the vesting date(s) and any Contingent Payment(s) is forfeited, you will realize a capital loss equal to the cost base of the contingent right at the time of cancellation (*i.e.*, when your employment terminates). Again, the cost base of the contingent right is equal to the market value of the right on the Transfer Date, as determined by an independent valuation.

### Arm's Length Transaction.

It is possible that the Australian tax authorities will take the position that the Stock Option Transfer Program should be regarded as an arm's length transaction. In this case, your tax consequences will be as follows:

#### **Employee Level 67 or below.**

You will be subject to income tax, any applicable Medicare levy and surcharge tax on the amount of the Total Payment, which the Company expects you will receive in one payment as the Initial Payment on or before December 31, 2003. You are required to include in your assessable income the amount of the Total Payment in the year of income in which the Transfer Date occurs and in which you receive the Total Payment (which is expected to be paid out as the Initial Payment on or before December 31, 2003).

#### **Employee Level 68 or Above.**

If your Employee Level is 68 or above and, therefore, your Total Payment will be divided into an Initial Payment and into two Contingent Payments, you will likely be subject to tax as follows:

### *(i) Receipt of Initial Payment.*

You will be subject to income tax, any applicable Medicare levy and surcharge tax on the amount of the Initial Payment and the market value of the contingent rights, as determined by an independent valuation. You are required to include in your assessable income this taxable amount in the year of income in which the Transfer Date occurs.

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### *(ii) Receipt of Contingent Payments.*

If and when you receive the Contingent Payments on the vesting dates, you will realize either a capital gain or a capital loss depending on whether the cost base of the contingent right to the Contingent Payment is greater than or less than the actual Contingent Payment (including any Contingent Interest Payment) received on the vesting date. The cost base of the contingent right is determined as described under the Non-Arm's Length Transaction section above.

The capital gain made on the disposal of the contingent right (*i.e.*, if and when you receive the Contingent Payments) may qualify for the 50% discount because the contingent right will be held for more than 12 months if the requirements in Division 115 of the *Income Tax Assessment Act 1997* are met.

If your employment terminates prior to the vesting date(s) and any Contingent Payment(s) is forfeited, you will realize a capital loss equal to the cost base of the contingent right at the time of cancellation (*i.e.*, when your employment terminates).

### **Withholding and Reporting**

Regardless of the outcome of the negotiations with the tax authorities and the applicable tax scenario, neither your employer nor Microsoft is required to withhold and report any applicable income tax, Medicare levy or surcharge tax on the Initial Payment or any Contingent Payments (including any Contingent Interest Payments), as applicable.

It is your responsibility to report and pay any taxes, Medicare levy and surcharge tax (if applicable) due on the Total Payment in the tax year in which you receive each payment.

### **Market Value**

Please note that where the term "market value" is used above, it means the market value as determined in accordance with Australian tax law.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Austria**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Austria. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax at

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your marginal income tax rate and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Bolivia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Bolivia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will not be subject to tax or social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Brazil**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Brazil. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Bulgaria**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Cash Payment for individuals subject to tax in Bulgaria. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment because the Total Payment is likely to be regarded as “income from occasional transactions.” However, in the event the Total Payment is regarded as employment income, you will be subject to any applicable social insurance contributions on the Initial Payment when you receive such payment and on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).



### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes and applicable social insurance contributions due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Canada**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Canada. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate and to any applicable social insurance contributions on the amount of the Total Payment when your Eligible Options are transferred to JPMorgan (the "Transfer Date").

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, you will be able to pay any taxes due on the amount of the Total Payment on the Transfer Date with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes due on the Total Payment on the Transfer Date with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Canada plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, you will be able to pay any taxes due on the Total Payment with the amount of your Initial Payment.

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### **Withholding and Reporting**

Your employer is required to report the Total Payment and withhold any taxes and applicable social insurance contributions due on the Total Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

### **QUEBEC NOTICE**

BY ACCEPTING THE TERMS AND CONDITIONS CONTAINED IN THE ELECTION FORM AND AGREEING TO PARTICIPATE IN THE STOCK OPTION TRANSFER PROGRAM, YOU FURTHER AGREE TO THE FOLLOWING:

EACH ELIGIBLE EMPLOYEE IN QUEBEC WHO PARTICIPATES IN THE STOCK OPTION TRANSFER PROGRAM HEREBY AGREES THAT IT IS THE ELIGIBLE EMPLOYEE'S EXPRESS WISH THAT ALL DOCUMENTS EVIDENCING OR RELATING IN ANY WAY TO THE SALE OF THE INTERESTS BE DRAFTED IN THE ENGLISH LANGUAGE ONLY.

*CHAQUE ACHETEUR DE L'INTÉRÊT AU QUEBEC QUI SOUSCRIT À DES INTÉRÊTS RECONNAÎT PAR LA PRÉSENTE QUE C'EST SA VOLONTÉ EXPRESSE QUE TOUS LES DOCUMENTS FAISANT FOI OU SE RAPPORTANT DE QUELQUE MANIÈRE À LA VENTE DES INTÉRÊTS SOIENT RÉDIGÉS UNIQUEMENT EN ANGLAIS.*

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Chile**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Chile. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will likely not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the

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Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in China**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in China. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate (and also possibly to any applicable social insurance contributions) on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate (and also possibly to any applicable social insurance contributions) on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and to withhold any taxes due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld. Under current law, it unclear whether your employer is required to withhold any social insurance contributions that may be due on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Colombia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Colombia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Costa Rica**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Costa Rica. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Cash Payment**

You will be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and to withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Croatia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Croatia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in the Czech Republic**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the Czech Republic. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

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### **Election to Participate / Amendment of Eligible Options**

It is likely that you will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You may be subject to income tax at your marginal tax rate (and also possibly social insurance contributions) on the Total Payment when your Eligible Options are transferred to JP Morgan (the "Transfer Date") or you may only be subject to tax when you receive any payment. Whether social insurance contributions are due will depend on whether your employer withholds tax, as described under the Withholding and Reporting section below.

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, you will be able to pay any taxes that may be due on the amount of the Total Payment on the Transfer Date with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes that may be due on the amount of the Total Payment on the Transfer Date with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s). Consequently, you will be able to pay any taxes due on the amount of the Total Payment with the amount of your Initial Payment.

### **Withholding and Reporting**

It is likely that your employer is not required to withhold income tax or any social contributions that may be due on the Total Payment. In this case, it is your responsibility to report the amount of the Total Payment to the tax authorities and calculate and pay any taxes due in the year that you receive such payment. Social insurance contributions will not be due in this case.

However, it is possible that your employer may be required to withhold and report income tax and any applicable social insurance contributions that may be due on the Total Payment from the amount of the Initial Payment. In this case, you will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Denmark**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Denmark. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will not be subject to tax when you elect to participate in the Stock Option Transfer Program. However, you will technically be subject to tax when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment, as further described under the Receipt of Payment section below.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate and to any applicable social insurance contributions on the amount of the Total Payment when your Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment (the "Amendment Date"). You will be subject to tax on the amount of the Total Payment less any taxes that you have already paid on the Eligible Options (the "Taxable Amount").

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment, which is expected to be made on or before December 31, 2003. In this case, you will be able to pay any taxes due on Taxable Amount on the Amendment Date with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes due on the Taxable Amount on the Amendment Date with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Denmark plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, you will be able to pay any taxes due on the Taxable Amount with the amount of your Initial Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold income tax or social insurance contributions on the Taxable Amount. However, your employer is required to report the amount of the Total Payment to the tax authorities. It is your responsibility to report the amount of the Total Payment to the tax authorities and calculate and pay any taxes and applicable social insurance contributions due on the Taxable Amount.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in the Dominican Republic**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the Dominican Republic. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

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### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment.

### **Withholding and Reporting**

Because the Total Payment is a one-time only benefit, it is not likely to be characterized as salary or an additional salary benefit. Therefore, neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Ecuador**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Ecuador. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.



## Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Egypt

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Egypt. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

It is not certain how the Total Payment will be taxed in Egypt. Given that the tax treatment of the Total Payment is uncertain, we strongly recommend that you confirm your tax liability with your personal tax advisor.

It is likely that the Total Payment will be characterized as salary income. In this case, you will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

There is, however, a possibility that the Total Payment will be characterized as a capital gain. In this case, technically, you will be subject to capital gains tax on the Total Payment when your Eligible Options are transferred to JPMorgan (the "Transfer Date"). In practice, you may pay any capital gains tax due on the Total Payment when you actually receive the Initial Payment. Currently, the maximum tax rate is 32%.

Consequently, the Initial Payment will be sufficient to cover the taxes you may owe on the Total Payment, regardless of whether you receive the Total Payment in one payment as the Initial Payment (because the amount of your Total Payment is US\$20,000 or less), or whether your Total Payment will be divided into an Initial Payment and one or two Contingent Payments (because the amount of your Total Payment is greater than US\$20,000).

If the tax rates are increased before the tax becomes due, please note that you may have to pay the additional tax liability with your own funds.

You will not be subject to any additional taxes if and when you receive the Contingent Payment(s). If the Contingent Payment is forfeited (because you terminate employment with Microsoft or its subsidiaries before the end of the vesting period(s)), it is not certain if you can claim a tax refund for any taxes paid on this payment.

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Regardless of the characterization of the Total Payment, neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment. It is your responsibility to

report the Total Payment to the tax authorities and calculate and pay any taxes due on such payment. The position that you take with respect to the characterization of the Total Income will impact your tax reporting and payment obligations. You should confirm these requirements with your personal tax advisor.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in El Salvador**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Cash Payment for individuals subject to tax in El Salvador. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

#### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

#### **Receipt of Total Payment**

It is not certain how the Total Payment will be taxed in El Salvador. Because of the lack of a labor relationship between Microsoft, the offeror of the Stock Option Transfer Program, and you, there is a good argument that the Total Payment should be treated as foreign source income and that, therefore, you should not be subject to tax on the Total Payment.

Notwithstanding the above, there is a risk that the Salvadoran tax authorities may take the position that the Total Payment is Salvadoran-source income (*e.g.*, income related to labor services rendered within El Salvador). In this case, you will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment, and you will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

In any event, social insurance contributions will not be due on the Total Payment.

Given that the tax treatment of the Total Payment is uncertain, we strongly recommend that you confirm your tax liability with your personal tax advisor.

#### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. Provided the Total Payment is considered as Salvadoran-source income, it would be your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Finland**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Finland. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Due to tax laws in your country, regardless of whether the amount of your Total Payment is greater than US\$20,000, the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s). Instead, you will receive the entire amount of the Total Payment as the Initial Payment that is expected to be paid on or before December 31, 2003.

Technically, you will be subject to income tax and any applicable social insurance contributions on the amount of the Total Payment when your Eligible Options are transferred to JPMorgan (the "Transfer Date"). In practice, any income tax and applicable social insurance contributions due on the amount of the Total Payment may be paid when you actually receive the Initial Payment.

### **Withholding and Reporting**

Your employer is required to report the Total Payment and withhold any taxes and applicable social insurance contributions due on the Total Payment on the Transfer Date from the amount of the Initial Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in France**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in France. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

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### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold income tax on the Total Payment. However, your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities. In addition, your employer is required to withhold and report any social insurance contributions that may be due on the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any).

It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment. Neither Microsoft nor your employer is liable in any way if you fail to fulfill your legal obligations relating to the Total Payment. Any late payment of tax will be subject to an annual interest penalty on the amount due and other penalties may apply.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Germany**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Germany. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

Although not certain, it is likely that you will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

If the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will be subject to income tax at your marginal tax rate on the Total Payment when your Eligible Options are transferred to JP Morgan (the "Transfer Date"). Social insurance contributions likely will also be assessed on the Total Payment on the Transfer Date, subject to the applicable contribution ceiling.

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If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, it is not certain how the Total Payment will be taxed in Germany.

Although there are reasonable arguments that you should be subject to income tax at your marginal income tax rate and any applicable social insurance contributions on the Initial Payment and on the Contingent Payment(s) (including any Contingent Interest Payment(s)) only if and when you receive these payments, there is a significant risk that you will be subject to income tax and any applicable social insurance contributions on the Total Payment on the Transfer Date.

Microsoft is currently in negotiations with the German tax authorities to confirm the tax treatment. If the tax authorities confirm that the tax will be imposed only at the time of receipt of each payment, the Total Payment will be divided into an Initial Payment and one or two Contingent Payments, subject to the vesting period(s), and income tax and any applicable social insurance contributions will be due if and when each such payment is made.

In the event that (i) the tax authorities indicate that you should be subject to tax on the Total Payment on the Transfer Date, (ii) the tax authorities refuse to confirm that tax should be due only at the time of receipt of each payment, or (iii) the tax authorities fail to provide Microsoft with any guidance on the applicable tax treatment by the time you are scheduled to receive the Initial Payment, the Initial Payment may not be sufficient to cover the income tax and any applicable social insurance contributions due on the Total Payment on the Transfer Date. If there remains a significant risk that you are subject to income tax and any applicable social insurance contributions on the Total Payment on the Transfer Date, Microsoft will pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Germany plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, any income tax and social insurance contributions due on the Total Payment on the Transfer Date can be paid with the amount of your Initial Payment.

Please check with Microsoft or your employer on the outcome of the negotiations and the applicable tax treatment. In addition, we strongly recommend that you also confirm your tax liability and the likely outcome of the negotiations with your personal tax advisor.

### **Withholding and Reporting**

It is uncertain whether your employer will be required to withhold and report income tax and any applicable social insurance contributions on the Total Payment. Microsoft is currently in negotiations with the German tax authorities to confirm whether there is a withholding obligation. Please check with Microsoft or your employer on the outcome of the negotiations.

#### *Withholding and Reporting Required*

Your employer will withhold and report income tax and any applicable social insurance contributions on the Total Payment in the event that (i) the tax authorities determine that your employer has a withholding and reporting obligation, or (ii) the tax authorities fail to provide Microsoft with any guidance on this issue by the time you are scheduled to receive the Initial Payment.

If your Total Payment is divided into an Initial Payment and one or two Contingent Payments because (i) the amount of your Total Payment is greater than US\$20,000 and the tax authorities confirm that tax is due only if and when the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) are actually received, or (ii) your Employee Level is 68 or above, your employer will report and withhold income tax and any applicable social insurance contributions from the amount of each such payment in the year in which you actually receive such payment.

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If the Total Payment is subject to tax on the Transfer Date, your employer will report and withhold income tax and any applicable social insurance contributions due on the amount of the Total Payment in the tax year in which you receive the Initial Payment.

### *Withholding and Reporting Not Required*

In the event the tax authorities determine that your employer has no tax withholding or reporting obligation, it is likely your responsibility to report and pay any taxes due on the Total Payment.

If your Total Payment is divided into an Initial Payment and one or two Contingent Payments because (i) the amount of your Total Payment is greater than US\$20,000 and the tax authorities confirm that tax is due only if and when the Initial Payment and the Contingent Payments (including any Contingent Interest Payment(s)) are actually received, and (ii) your Employee Level is 68 or above, you will have to report the amount of each such payment you receive as income to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

If the Total Payment is subject to tax on the Transfer Date, you will have to report and pay tax due on the Total Payment in the tax year in which you receive the Initial Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Greece**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Greece. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Guatemala**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Guatemala. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Because the Total Payment is derived from a non-Guatemalan source, you likely will not be subject to income tax or social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Hong Kong**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Hong Kong. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

The Total Payment should be characterized as a "cash bonus." Therefore, you likely will be subject to salaries tax and to any applicable Mandatory Provident Fund contributions on the Initial Payment in the year of assessment

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during which you receive such payment. You likely will also be subject to salaries tax and to any applicable Mandatory Provident Fund contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) in the year of assessment during which you actually receive such payment(s).

Please note that, although there is a strong argument that the Total Payment should be characterized as a “cash bonus,” there is, nonetheless, a possibility that the Internal Revenue Department will take a different position. Therefore, we strongly recommend that you confirm your tax liability with your personal tax advisor.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold salaries tax on the Total Payment. However, your employer will report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities as a “cash bonus” in the year of assessment during which you actually receive such payment. You will also be responsible to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year of assessment during which you actually receive such payment and calculate and pay any taxes due on such payment.

The Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) will be included as part of your “relevant income” for Mandatory Provident Fund purposes when you actually receive such payment. However, it is likely that you will have already exceeded the applicable contribution ceiling for Mandatory Provident Fund contributions. Therefore, your employer likely will not be required to contribute or withhold additional contributions towards your Mandatory Provident Fund when the Initial Payment or the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) are actually made.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Hungary**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Hungary. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate and to any applicable medical contributions on the amount of the Total Payment when your Eligible Options are transferred to JPMorgan (the “Transfer Date”).

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, you will be able to



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pay any taxes due on the amount of the Total Payment on the Transfer Date with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes due on the Total Payment on the Transfer Date with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s). Consequently, you will be able to pay any taxes due on the Total Payment on the Transfer Date with the amount of your Initial Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions (*i.e.*, medical contributions) on the Total Payment.

It is your responsibility to report and pay any taxes due on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in India**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in India. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, Microsoft will be able to withhold any taxes due on the amount of the Total Payment when you receive the Initial Payment from the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, Microsoft may not be able to withhold all of the taxes due on the Total Payment when you receive the Initial Payment from the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), again, unless your Employee Level is 68 or above.

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If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in your country plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments, provided that Microsoft will receive the necessary exchange control approval (as described below). If exchange control approval is not obtained, you will also receive the Total Payment as the Initial Payment that is expected to be made on or before December 31, 2003, and no Contingent Payments will be made.

Consequently, regardless of your Employee Level, Microsoft will be able to withhold any taxes due on the Total Payment when you receive the Initial Payment from the amount of your Initial Payment.

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft's behalf) is required to withhold and report income tax on the amount of the Total Payment in the year in which you receive such payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Indonesia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Indonesia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax at your marginal income tax rate on the Initial Payment when you receive such payment. You will also be subject to income tax at your marginal income tax rate on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Ireland

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Ireland. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Technically, you will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when your Eligible Options are transferred to JPMorgan. In practice, however, any income tax and applicable social insurance contributions due on the Initial Payment will have to be paid only when you actually receive the Initial Payment.

You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when the vesting period applicable to you has lapsed. In practice, however, any income tax and applicable social insurance contributions due on the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) will have to be paid only if and when you actually receive such payment.

### **Withholding and Reporting**

Your employer is required to report the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

### **Type of Offering**

The Stock Option Transfer Program is a private transaction. This is not an offer to the public.

### **Reporting Requirements**

If you are a director, shadow director or secretary of an Irish affiliate of Microsoft, you are subject to certain notification requirements under the Companies Act, 1990. Among these requirements is an obligation to notify the Irish affiliate in writing when you transfer your Eligible Options in exchange for the Total Payment. In addition, you must notify the Irish affiliate if and when you receive the Initial Payment and the Contingent Payment(s).

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Israel**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Israel. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Microsoft has confirmed with the Israeli tax authorities that you will be subject to tax on the Total Payment only if and when you receive the Total Payment.

Therefore, if the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment expected to be made on or before December 31, 2003, you will be subject to tax on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you will be subject to tax on the amount of the Initial Payment when you receive such payment, and you will also be subject to tax on the amount of the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive each such payment(s).

Provided your option benefits would have been subject to tax at a special rate of 42.5% because the Eligible Options were granted under a Section 102 plan or subject to a special arrangement with the Israeli tax authorities, your Total Payment will also be subject to the special 42.5% tax rate. Please note that, in order to benefit from the special tax rate, you may be required to sign an undertaking, which your employer will submit to the Israeli tax authorities.

If your Eligible Options were not granted under a Section 102 plan and not subject to the special arrangement with the Israeli tax authorities, you may be subject to tax at your marginal tax rate and to any applicable social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Your employer will be responsible to withhold and report any tax and social insurance contributions on the Total Payment.

If the Total Payment is divided into an Initial Payment and one or two Contingent Payments because the amount of your Total Payment is greater than US\$20,000, your employer will report and withhold tax from the amount of each such payment in the year in which you actually receive such payment.

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If you will receive the Total Payment in one payment as the Initial Payment expected to be made on or before December 31, 2003 because the Total Payment is US\$20,000 or less, your employer will report and withhold tax from the amount of the Initial Payment in the year in which you receive such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Ivory Coast**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Ivory Coast. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will neither be subject to tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions also will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Jamaica**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Jamaica. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Japan**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Japan. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

If the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment expected to be made on or before December 31, 2003, you will be subject to income tax at your marginal tax rate on the Total Payment when your Eligible Options are transferred to JP Morgan (the "Transfer Date").

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, it is not certain how the Total Payment will be taxed in your country.

Although there are reasonable arguments that you should be subject to income tax at your marginal income tax rate on the Initial Payment and on the Contingent Payment(s) (including any Contingent Interest Payment(s)) only if and when you receive these payments, there is a significant risk that you will be subject to tax on the amount of the Total Payment on the Transfer Date.

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Microsoft is currently in negotiations with the Japanese tax authorities to confirm the tax treatment. If the tax authorities confirm that the tax will be imposed only at the time of receipt of each payment, the Total Payment will be divided into an Initial Payment and one or two Contingent Payments, subject to the vesting period(s), and Microsoft will withhold any tax due if and when each such payment is made.

In the event that (i) the tax authorities indicate that you should be subject to income tax on the Total Payment on the Transfer Date, (ii) the tax authorities refuse to confirm that tax should be due only at the time of receipt of each payment, or (iii) the tax authorities fail to provide Microsoft with any guidance on the applicable tax treatment by the time you are scheduled to receive the Initial Payment, the Initial Payment may not be sufficient to cover the income tax that Microsoft will have to withhold from the amount of the Total Payment on the Transfer Date. If there remains a significant risk that you are subject to income tax on the Total Payment on the Transfer Date, Microsoft will pay the Total Payment to you as the Initial Payment expected to be made on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), again, unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Japan plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, you will be able to pay any taxes due on the Total Payment on the Transfer Date with the amount of your Initial Payment.

Social insurance contributions likely will not be due on the Total Payment.

Please check with Microsoft or your employer on the outcome of the negotiations and the applicable tax treatment. In addition, we strongly recommend that you also confirm your tax liability and the likely outcome of the negotiations with your personal tax advisor.

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft's behalf) likely will not be required to withhold and report income tax and any social insurance contributions on the Total Payment. Instead, it likely will be your responsibility to report, calculate and pay any tax due on the Total Payment to the tax authorities.

If your Total Payment is divided into an Initial Payment and one or two Contingent Payments because (i) the amount of your Total Payment is greater than US\$20,000 and the tax authorities confirm that tax is due only if and when the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) are actually received, or (ii) your Employee Level is 68 or above, you will have to report and pay income tax on the amount of each such payment in the year in which you actually receive such payment.

If the Total Payment is subject to tax on the Transfer Date, you will have to report and pay income tax on the amount of the Total Payment in the tax year in which you receive the Initial Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Jordan**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Jordan. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will be subject to income tax on the Initial Payment when you receive such payment. You likely will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Kenya**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Kenya. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to tax on the Initial Payment when you receive such payment. You will also be subject to tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent



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Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

### **Microsoft Corporation** **Stock Option Transfer Program: A Guide to Issues in Korea**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Korea. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

#### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

#### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

#### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax on the Total Payment. If social insurance contributions are due on the Total Payment, your employer may withhold such contributions from the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

### **Microsoft Corporation** **Stock Option Transfer Program: A Guide to Issues in Kuwait**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Kuwait. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will neither be subject to tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions also will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Latvia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Latvia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the

Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Lebanon**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Lebanon. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will be subject to income tax on the Initial Payment when you receive such payment. You likely will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Malaysia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Malaysia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

### **Exchange Control Information**

You have to repatriate the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) to Malaysia as soon as such payments are received.

### **Director Notification**

If you are a director of a Malaysian affiliate of Microsoft, you are subject to certain notification requirements under the Malaysian Companies Act, 1965. Among these requirements is an obligation to notify the Malaysian affiliate in writing when you transfer your Eligible Options to JPMorgan in exchange for the Total Payment. These notifications must be made within fourteen days of disposing of your Eligible Options.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Mauritius**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Mauritius. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Mexico**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Mexico. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive each such payment and calculate and pay any taxes due on such payment.

The tax will have to be calculated and paid as follows:

You may divide the taxable amount (*i.e.*, the amount of the Initial Payment or the Contingent Payment) (including any Contingent Interest Payment(s)) by the number of years you have held your Eligible Options (not

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to exceed 20 years) at the time of the transfer of the Eligible Options to JPMorgan. The resulting amount (the “Recognized Gain”) is added to all of your other taxable income in the relevant tax year, and the total amount is taxed at your regular progressive tax rate.

The portion of the taxable amount that you have not included in your annual income, *i.e.*, the taxable amount minus the Recognized Gain (the “Non-Recognized Gain”), is taxed at the tax rate as calculated below, and the resulting tax is added to the tax paid as calculated above.

**Calculation of Tax Rate for Non-Recognized Gain:** Apply your regular tax rate to your total taxable income (including the Recognized Gain) in the respective tax year, as reduced by all allowable deductions, with certain adjustments. Divide the result by the amount of the total taxable income. The result is the tax rate you have to apply to the Non-Recognized Gain.

Alternatively, you may use the average rate resulting from applying the rates determined per the calculation above for the past five years (including the year of the transfer) and dividing the result by 5. If you have not recognized any income in the four years preceding the year of the transfer, you may consider as income for each of such years the amount of the Recognized Gain.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Morocco**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Morocco. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Namibia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Namibia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to tax on the Initial Payment when you receive such payment. You will also be subject to tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment, provided you have already exceeded your applicable wage ceiling.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in the Netherlands**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the Netherlands. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will not be subject to tax when you elect to participate in the Stock Option Transfer Program. Provided that the amendment of Eligible Options will not be qualified as a new option grant and/or as a deemed disposal of the Eligible Options, you will not be subject to tax when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Provided that the amendment of your Eligible Options will not be qualified as a new option grant and/or as a deemed disposal of your Eligible Options, the tax treatment of your Total Payment depends on whether your Eligible Options are vested or unvested at the time of transfer and can be described as follows:

Vested Eligible Options. The tax treatment further depends on whether you made an election to defer tax with respect to all or a portion of your Eligible Options.

#### *(i) Election To Defer Tax.*

If the amount of your Total Payment US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will likely be subject to income/wage tax at your applicable progressive tax rate on the amount of the Total Payment when your Eligible Options are transferred to JP Morgan (the "Transfer Date").

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two a Contingent Payments, you will likely be subject to income/wage tax at your applicable progressive tax rate on the Initial Payment when your Eligible Options are transferred to JP Morgan (the "Transfer Date"). The Contingent Payment(s) (including any Contingent Interest Payment(s)) will likely be subject to income/wage tax at your applicable progressive tax rate upon receipt of each such payment.

#### *(ii) No Election To Defer Tax / Taxation At Vesting.*

The Total Payment likely will not be subject to tax if your Eligible Options were granted before June 26, 1998, regardless of whether the Total Payment is divided into an Initial Payment and one or two Contingent Payments.

If your Eligible Options were granted on or after June 26, 1998, the Total Payment likely also will not be subject to tax, regardless of whether the Total Payment is divided into an Initial Payment and one or two Contingent Payments, provided you receive neither the Initial Payment nor the Contingent Payment within three years after you accepted the Eligible Options.

In the event that you receive the Initial Payment and/or the Contingent Payment(s) (including any Contingent Interest Payment(s)) within three years after you accepted the Eligible Options, the payment is subject to taxation at your applicable progressive tax rate. The value of the Eligible Options that was already subject to tax at vesting may be deducted from the amount of the payment to a maximum of zero. Thus, deduction cannot lead to a tax refund or deductible loss and must be determined separately for each grant.

#### *(iii) Partial Election To Defer Tax.*

Based on a special arrangement with the tax authorities, options that had already partially vested before January 1, 2000 were eligible for postponement of taxation with respect to the portion that vested *after* January 1, 2000. As a result, you may hold Eligible Options that were taxed only in part at the time of vesting, *i.e.*, the time of vesting *before* January 1, 2000, but not upon subsequent vesting dates, because tax is deferred until exercise.

For the portion of your Eligible Options that vested before January 1, 2000, the tax treatment described above under (ii) would apply. With respect to the vested portion of your Eligible Options for which the deferral of tax applies, the tax treatment described above under (i) would apply. In that context, a "first-in-first-out" ("fifo") system must be applied, *i.e.*, the options that vested first should be deemed the first options sold.



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**Unvested Eligible Options.** If the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will likely be subject to income/wage tax at your applicable progressive tax rate on the amount of the Total Payment when your Eligible Options are transferred to JP Morgan (the “Transfer Date”).

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you will likely be subject to income/wage tax at your applicable progressive tax rate on the Initial Payment when your Eligible Options are transferred to JP Morgan (the “Transfer Date”). The Contingent Payment(s) (including any Contingent Interest Payment(s)) will likely be subject to income/wage tax at your applicable progressive tax rate upon receipt of each such payment.

The Total Payment may also be subject to Dutch social security premiums. The amount of income for social security purposes is calculated in a similar way as for tax purposes. However, please note that any election for deferred taxation will not influence the taxable moment for the levy of Dutch social security premiums (if any).

Microsoft is currently in negotiations with the Dutch tax authorities to confirm the above described tax treatment. Please note that, as a result of these negotiations, the tax treatment as described above might change. Please check with Microsoft or your employer on the outcome of the negotiations and the applicable tax treatment. In addition, we strongly recommend that you also confirm your tax liability and the likely outcome of the negotiations with your personal tax advisor.

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft’s behalf) is required to withhold and report any income/wage tax and social security premiums due in connection with your participation in the Stock Option Transfer Program.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in New Zealand**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in New Zealand. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Technically, you will be subject to income tax at your marginal tax rate and to any applicable accident compensation levy on the Total Payment when your Eligible Options are transferred to JP Morgan.

Microsoft has, however, confirmed with the New Zealand tax authorities that you will be subject to income tax and to any applicable accident compensation levy on the Total Payment only if and when you receive the Total Payment.

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Therefore, if the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will be subject to income tax and to any applicable accident compensation levy on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you will be subject to income tax and to any applicable accident compensation levy on the amount of the Initial Payment when you receive such payment, and you will also be subject to income tax and to any applicable accident compensation levy on the amount of the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive each such payment(s).

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft's behalf) is required to withhold and report income tax and any applicable accident compensation levy on the Total Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Nigeria**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Nigeria. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment, unless the local tax authorities expressly direct your employer or Microsoft to withhold and report taxes. It likely will be your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Norway

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Norway. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Oman

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Oman. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

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**Receipt of Total Payment**

You likely will neither be subject to tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions also will not be due on the Total Payment.

**Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment.

**Microsoft Corporation**

**Stock Option Transfer Program: A Guide to Issues in Panama**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Panama. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

**Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

**Receipt of Total Payment**

Because the transfer of your Eligible Options will take place outside of Panama, you likely will neither be subject to tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions also will not be due on the Total Payment.

**Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report tax and social insurance contributions on the Total Payment.

**Microsoft Corporation**

**Stock Option Transfer Program: A Guide to Issues in Paraguay**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Paraguay. This summary is general in

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nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will neither be subject to income tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions also likely will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Peru**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Peru. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Provided that you are not a habitual buyer and seller of securities, you will neither be subject to income tax on the Initial Payment when you receive such payment nor on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

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Social insurance contributions also will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in the Philippines**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the Philippines. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Poland**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Poland. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, you will be able to pay any taxes due on the amount of the Total Payment when you receive the Initial Payment with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes due on the amount of the Total Payment when you receive the Initial Payment with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s). Consequently, you will be able to pay any taxes due on the amount of the Total Payment when you receive the Initial Payment with the amount of your Initial Payment.

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax on the Total Payment.

It is your responsibility to report and pay any income tax due on the amount of the Total Payment. You will have to report and pay income tax due on the amount of the Total Payment in the tax year in which you receive the Initial Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Portugal**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Portugal. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold income tax on the Total Payment. However, your employer is required to report your receipt of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any). You will also be required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and to calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Puerto Rico**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Puerto Rico. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will not be subject to tax when you elect to participate in the Stock Option Transfer Program. Technically, the amendment of the Eligible Options to make them transferable to JP Morgan could be considered as a taxable exchange of the Eligible Options for amended options in Puerto Rico. However, because neither the Eligible Options nor the amended options have a readily ascertainable value, the amendment of the Eligible Options should not result in taxable income for you, and you should not be subject to tax at the time of the amendment.

### **Receipt of Total Payment**

You will be subject to income tax and any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).



### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Romania**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Romania. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Russia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Russia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise

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all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Determination of Total Payment**

You will be subject to tax when the Total Payment for your Eligible Options can be determined (the “Determination Date”). The Determination Date will be at the end of or shortly after the Averaging Period. On the Determination Date, you will be subject to income tax at a flat rate of 13% on the amount of the Total Payment. You will be able to pay this tax liability with the amount of the Initial Payment which you will receive shortly after the Determination Date.

Social insurance contributions will not be due on the Total Payment.

### **Receipt of Total Payment**

Technically, you will also be subject to income tax on the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you receive each such payment. However, you will be able to deduct from the tax base any amount already taxed on the Determination Date. Therefore, you can deduct the amount of the Total Payment from your tax base, which will reduce your taxable amount. Consequently, you will not be subject to any additional tax if and when you receive the Initial Payment. If and when you receive the Contingent Payment(s), you will be subject to tax on the amount of the Contingent Interest Payment(s) only.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold or report income tax or social insurance contributions on the amount of the Total Payment. It is your responsibility to report the amount of the Total Payment to the Russian tax authorities on your annual tax return for the year during which the Determination Date occurred and the year in which you receive the Contingent Payment(s) (including any Contingent Interest Payments (if any)). It is also your responsibility to calculate and pay any taxes due on such payment to the Russian tax authorities.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Saudi Arabia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Saudi Arabia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will not be subject to tax or social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Serbia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Serbia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes and applicable social insurance contributions due on such payment.

## Microsoft Corporation

### Stock Option Transfer Program: A Guide to Issues in Singapore

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Singapore. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

#### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

#### **Receipt of Total Payment**

If the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will be subject to income tax at your marginal tax rate on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, it is not certain how the Total Payment will be taxed in Singapore.

Although there are reasonable arguments that you should be subject to income tax at your marginal income tax rate on the Initial Payment and on the Contingent Payment(s) (including any Contingent Interest Payment(s)) only if and when you receive these payments, there is a significant risk that you will be subject to tax on the amount of the Total Payment when you receive the Initial Payment.

Microsoft is currently in negotiations with the Singapore tax authorities to confirm the tax treatment. If the tax authorities confirm that the tax will be imposed only at the time of receipt of each payment, the Total Payment will be divided into an Initial Payment and one or two Contingent Payments, subject to the vesting period(s).

In the event that (i) the tax authorities indicate that you should be subject to income tax on the Total Payment when you receive the Initial Payment, (ii) the tax authorities refuse to confirm that tax should be due only at the time of receipt of each payment, or (iii) the tax authorities fail to provide Microsoft with any guidance on the applicable tax treatment by the time you are scheduled to receive the Initial Payment, the Initial Payment may not be sufficient to cover the income tax due on the amount of the Total Payment when you receive the Initial Payment. If there remains a significant risk that you are subject to income tax on the amount of the Total Payment when you receive the Initial Payment, Microsoft will pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal

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to the top marginal income tax rate in Singapore plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, you will be able to pay any taxes due on the Total Payment when you receive the Initial Payment with the amount of your Initial Payment.

It is also not certain whether the Total Payment will be subject to the mandatory Central Provident Fund (“CPF”) contributions. Microsoft is currently in negotiations with the CPF Board to determine whether CPF contributions have to be paid on the amount of the Total Payment. If CPF contributions have to be paid on the Total Payment, they will be due when income tax is due on the Total Payment, as described above.

Please check with Microsoft or your employer on the outcome of the negotiations and the applicable tax and CPF treatment. In addition, we strongly recommend that you also confirm your tax liability and the likely outcome of the negotiations with your personal tax advisor.

### **Withholding and Reporting**

Regardless of the outcome of the negotiations with the tax authorities and the applicable tax scenario, neither your employer nor Microsoft is required to withhold and report income tax on the Total Payment.

It is your responsibility to report and pay any income tax due on the Total Payment.

If your Total Payment is divided into an Initial Payment and one or two Contingent Payments because (i) the amount of your Total Payment is greater than US\$20,000 and the tax authorities confirm that tax is due only if and when the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) are actually received, or (ii) your Employee Level is 68 or above, you will have to report the amount of each such payment you receive as income to the tax authorities in the year in which you actually receive such payment and calculate and pay any income tax due on such payment.

If the Total Payment is subject to tax when you receive the Initial Payment, you will have to report and pay income tax due on the amount of the Total Payment in the tax year in which you receive the Initial Payment.

If it is determined that CPF contributions have to be paid on the amount of the Total Payment, Microsoft or your employer will withhold any applicable CPF contributions from the Total Payment and pay them to the CPF Board at the time that the Total Payment is subject to tax, as described above.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in the Slovak Republic**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the Slovak Republic. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

**Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

**Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

**Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

**Microsoft Corporation**

**Stock Option Transfer Program: A Guide to Issues in Slovenia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Slovenia. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

**Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

**Receipt of Total Payment**

You likely will not be subject to tax or social insurance contributions on the Total Payment.

**Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in South Africa**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in South Africa. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Technically, you will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you become unconditionally entitled to receive such payment (the “First Taxable Event”). You likely will be considered to be unconditionally entitled to receive the Initial Payment when the Average Price and, hence, the amount of your Total Payment has been determined after the end of the Averaging Period. In practice, however, you may pay any income tax and social insurance contributions due on the Initial Payment when you actually receive such payment, provided the payment is not made more than one month after the First Taxable Event.

You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when the vesting period applicable to you has lapsed (the “Second Taxable Event”). In practice, however, you may pay any income tax and social insurance contributions due on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment, provided the payment is not made more than one month after the Second Taxable Event.

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes and applicable social insurance contributions due on such payment(s). You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Spain**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Spain. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your

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particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will not be subject to tax when you elect to participate in the Stock Option Transfer Program. However, you may be subject to tax when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment, as further described under the Receipt of Payment section below.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

There is a risk that you may be subject to income tax and any applicable social insurance contributions on the Total Payment when your Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment (the "Amendment Date"). In this case, it is also not certain how the taxable amount will be determined. Most likely, the taxable amount will be the amount of the Total Payment.

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, Microsoft will be able to withhold any taxes due on the amount of the Total Payment on the Amendment Date from the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, Microsoft may not be able to withhold all of the taxes due on the Total Payment on the Amendment Date from the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment that is expected to be made on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), unless your Employee Level is 68 or above. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment equal to the top marginal income tax rate in Spain plus another 18% of the Total Payment. The remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, Microsoft will be able to withhold any taxes due on the Total Payment on the Amendment Date from the amount of your Initial Payment.

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft's behalf) is required to withhold and report income tax and any applicable social insurance contributions on the Total Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.



## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Sweden**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Sweden. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will be subject to income tax on the Initial Payment when you receive such payment. You likely will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

You will not have to pay any social insurance contributions on the Initial Payment or on any Contingent Payment(s) (including any Contingent Interest Payment(s)). However, your employer will be responsible for paying its portion of social insurance contributions when you actually receive such payments.

### **Withholding and Reporting**

Your employer is required to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) and withhold any taxes due on such payments. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

You must report the transfer of the Eligible Options under the Stock Option Transfer Program to your employer in the month following the transfer, but not later than January 15 of the subsequent year.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Switzerland**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Switzerland. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

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If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Under current laws, if you are (i) a tax resident of Switzerland, and (ii) a Swiss national or a foreign employee holding a “C” residence permit, your employer will not withhold income tax on the amount of the Initial Payment or on any Contingent Payment(s) (including any Contingent Interest Payment(s)), but will withhold your portion of social insurance contributions due on the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any). In addition, your employer will report the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) on your annual “certificate of salary” which will be issued to you at the end of or shortly after the end of the calendar year of the taxable event. It is your responsibility to attach the “certificate of salary” to your tax return and pay any taxes resulting from the Initial Payment and/or the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any).

If you are not a resident of Switzerland, or if you are a foreign employee holding a permit other than a “C” permit and you are not married to a spouse who is a Swiss national or who holds a “C” permit, you are likely subject to Swiss income taxation at source (“Quellensteuer”). In this case, your employer will withhold and report income tax and social insurance contributions if and when you receive the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)). Depending on the amount of your annual income in Switzerland, you may be required to file a tax return and to pay additional taxes (or to receive a refund) when the Tax Administration computes the exact amount of taxes based on your tax return.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Taiwan**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Taiwan. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

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### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Thailand**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Thailand. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate /Amendment of Eligible Options**

You will not be subject to tax when you elect to participate in the Stock Option Transfer Program. Theoretically, the amendment of your Eligible Option to make it transferable is a taxable event. However, you should be able to argue that it is impossible to establish the value of the Eligible Options. Consequently, the value of the Eligible Options should be deemed to be zero so that no actual taxes will be due.

### **Receipt of Total Payment**

You will be subject to income tax and to any applicable social insurance contributions on the Initial Payment when you receive such payment. You will also be subject to income tax and to any applicable social insurance contributions on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the

Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes and applicable social insurance contributions due on such payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Trinidad & Tobago**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Trinidad & Tobago. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

Under applicable law, it is not certain which event will be the taxable event in connection with the Stock Option Transfer Program. Therefore, we strongly recommend that you confirm the applicable tax treatment with your personal advisor.

It is likely that you will be subject to tax and to any applicable social insurance contributions when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment (the "Amendment Date"). In this case, you will be subject to tax on the amount of the Total Payment on the Amendment Date. For information on how the tax will be paid on the Amendment Date, please refer to the "Receipt of Total Payment" section below.

### **Receipt of Total Payment**

Because the amount of your Total Payment will be US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment expected to be made on or before December 31, 2003.

Therefore, Microsoft will be able to withhold any income tax and applicable social insurance contributions due on the amount of the Total Payment on the Amendment Date from the amount of the Initial Payment.

### **Withholding and Reporting**

Your employer is required to report the amendment of your Eligible Options and withhold any taxes and applicable social insurance contributions due on the Total Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Tunisia**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Tunisia. This summary is general in

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nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You will be subject to income tax on the Initial Payment when you receive such payment. You will also be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you actually receive such payment and calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Turkey**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Turkey. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will be subject to tax on the Initial Payment when you receive such payment. You likely will also be subject to tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive such payment(s).

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Please note that there is a risk that you may be subject to tax on the Total Payment when your Eligible Options are transferred to JPMorgan in exchange for the Total Payment. However, you should be able to argue that the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) should be taxed only at the time of actual receipt rather than upon transfer. Please consult with your personal tax advisor to determine the tax consequences of participating in the Stock Option Transfer Program.

Social insurance contributions will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Initial Payment and the Contingent Payment(s) (including any Contingent Interest Payment(s)) (if any) to the tax authorities in the year in which you receive such payment and to calculate and pay any taxes due on such payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in United Arab Emirates**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the United Arab Emirates. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will not be subject to tax or social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in the United Kingdom**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in the United Kingdom. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in

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light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

There is some uncertainty as to whether you could be subject to income tax at your marginal tax rate and to any applicable national insurance contributions (“NICs”) on the amount of the Total Payment when you receive the Initial Payment.

Microsoft has, however, confirmed with the U.K. tax authorities that you will be subject to income tax and to any applicable NICs on the amount of the Total Payment only if and when you receive the Total Payment.

Therefore, if the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you will be subject to income tax and to any applicable NICs on the amount of the Total Payment when you receive the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you will be subject to income tax and to any applicable NICs on the amount of the Initial Payment when you receive such payment, and you will also be subject to income tax and to any applicable NICs on the amount of the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you actually receive each such payment(s).

### **Withholding and Reporting**

Microsoft (or your employer, on Microsoft’s behalf) is required to withhold and report income tax and any applicable NICs on the Total Payment. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

## **Microsoft Corporation**

### **Stock Option Transfer Program: A Guide to Issues in Uruguay**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Uruguay. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

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### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

You likely will not be subject to tax or social insurance contributions on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax and social insurance contributions on the Total Payment.

## **Microsoft Corporation**

## **Stock Option Transfer Program: A Guide to Issues in Venezuela**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Venezuela. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under applicable law, your tax treatment in connection with the Stock Option Transfer Program is not certain. We strongly recommend that you confirm the applicable tax treatment with your personal advisor.

You likely will be subject to income tax at your marginal rate on the amount of the Total Payment when your Eligible Options are transferred to JPMorgan (the "Transfer Date").

If the amount of your Total Payment is US\$20,000 or less, you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003. In this case, you will be able to pay any taxes due on the amount of the Total Payment on the Transfer Date with the amount of the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and is, therefore, due to be divided into an Initial Payment and into one or two Contingent Payments, you may not be able to pay all of the taxes due on the Total Payment on the Transfer Date with the amount of the Initial Payment. Therefore, Microsoft has decided to pay the Total Payment to you as the Initial Payment on or before December 31, 2003, unless your Employee Level is 68 or above. This means that the Total Payment will not be divided into an Initial Payment and one or two Contingent Payments, subject to the end of the vesting period(s), again, unless your Employee Level is 68. If your Employee Level is 68 or above, you will receive as the Initial Payment a percentage of the Total Payment



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equal to the top marginal income tax rate in Venezuela plus 18%, and the remainder of your Total Payment will be divided into two Contingent Payments. Consequently, regardless of your Employee Level, you will be able to pay any taxes due on the Total Payment on the Transfer Date with the amount of your Initial Payment.

Social insurance contributions likely will not be due on the Total Payment.

### **Withholding and Reporting**

Neither your employer nor Microsoft is required to withhold and report income tax or social insurance contributions on the Total Payment. It is your responsibility to report the amount of the Total Payment to the tax authorities and calculate and pay any taxes and applicable social insurance contributions due on the Total Payment.

## **Microsoft Corporation Stock Option Transfer Program: A Guide to Issues in Vietnam**

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The following is a general summary of the tax and other legal consequences of the transfer of your Eligible Options in exchange for the Total Payment for individuals subject to tax in Vietnam. This summary is general in nature and does not discuss all of the tax or other legal consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of holders of Eligible Options. Please note that tax and other laws change frequently and occasionally on a retroactive basis. We advise all holders of Eligible Options considering participating in the Stock Option Transfer Program to consult with their own tax or financial advisors.

If you are a citizen or resident of another country for local law purposes, the information contained in this summary may not be applicable to you. You are advised to seek appropriate professional advice as to how the tax or other laws in your country apply to your specific situation.

### **Exchange Control Approval**

Microsoft is currently seeking approval from the State Bank of Vietnam to offer the Stock Option Transfer Program in Vietnam. **YOUR PARTICIPATION IN THE STOCK OPTION TRANSFER PROGRAM (I.E., YOUR ABILITY TO TRANSFER ELIGIBLE OPTIONS IN EXCHANGE FOR THE TOTAL PAYMENT) IS SUBJECT TO MICROSOFT OBTAINING SUCH APPROVAL.** Microsoft has obtained verbal confirmation from the State Bank of Vietnam that it will approve the Stock Option Transfer Program. However, you should confirm that such approval has been issued before electing to participate in the Stock Option Transfer Program.

The following general summary of your tax consequences assumes that Microsoft has received approval of the Stock Option Transfer Program from the State Bank of Vietnam.

### **Election to Participate / Amendment of Eligible Options**

You will neither be subject to tax when you elect to participate in the Stock Option Transfer Program nor when the Eligible Options are amended to become transferable to JPMorgan in exchange for the Total Payment.

### **Receipt of Total Payment**

Under current laws, the income received under cashless employee stock option plans, such as the Stock Option Transfer Program, is temporarily tax-exempt, provided that the State Bank of Vietnam registers and approves any such cashless employee stock option plan. Please note, however, that tax laws in Vietnam are expected to change substantially. Therefore, the tax treatment described in this summary could change after the Stock Option Transfer Program is offered in Vietnam.

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If the amount of your Total Payment is US\$20,000 or less and you will receive the Total Payment in one payment as the Initial Payment that is expected to be made on or before December 31, 2003, you likely will not be subject to income tax when you receive the Initial Payment.

If the amount of your Total Payment is greater than US\$20,000 and will, therefore, be divided into an Initial Payment and into one or two Contingent Payments, it is likely that the Initial Payment will not be subject to income tax. However, it is possible that you may be subject to income tax on the Contingent Payment(s) (including any Contingent Interest Payment(s)) if and when you receive such payment(s). This will depend on whether income from cashless employee stock option plans is subject to tax at the time you receive such payment(s).

Social insurance contributions likely will not be due on the Total Payment.

Due to the uncertainty of the taxation of the Total Payment, we strongly recommend that you confirm your tax liability with your personal tax advisor.

### **Withholding and Reporting**

Under current laws, neither your employer nor Microsoft is required to withhold income tax and social insurance contributions on the Total Payment. However, as discussed above, the tax laws are expected to change. Therefore, both Microsoft and your employer reserve the right to withhold income tax on the Total Payment in the event that applicable laws change and withholding should be required.

In any event, Microsoft or your employer is required to report to the State Bank of Vietnam the amount of the Initial Payment and the amount of the Contingent Payment(s) (including any Contingent Interest Payment(s)), if and when each such payment is actually received.

[The following pages are the ELECTION TO PARTICIPATE pages of the tool for most employees:

Eligible Employees that do not have a participation election registered in the system would access the following web pages (unless they are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay).

The Tool has three conditional text scenarios that are set forth in Step 3 of these pages. An employee would only see the text if the language was applicable to the employee's situation, due to his or her pay level, country of employment and/or results of the Total Payment modeling in Step 3.]

## Standard Online Election Process:

### Stock Option Transfer Program

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We are pleased to offer you this one-time opportunity to participate in the Stock Option Transfer Program. The decision whether to participate is up to you. If you choose not to participate, you will simply keep your stock options with their current terms and conditions.

We've provided this tool to help you make an informed decision. Additionally, we encourage you to consult other [resources](#) to assist you. PLEASE READ THE [NOTICE](#) CAREFULLY SO THAT YOU WILL UNDERSTAND THE RISKS OF PARTICIPATING BEFORE YOU MAKE ANY DECISIONS REGARDING WHETHER TO PARTICIPATE.

#### Important information about the Stock Option Transfer Program:

- You have \_\_\_\_\_ options at a grant price of \$33/share or above that are eligible (including \_\_\_\_\_ options that would be unvested at the end of the Election Period). Vested and unvested options are eligible, and you will be allowed to transfer both.
- Regardless of your decision to participate, you will retain your \_\_\_\_\_ options with a grant price below \$33/share with their existing terms and conditions.
- If you elect to participate in the Stock Option Transfer Program, you must transfer all of your [Eligible Options](#) and cannot elect to transfer only specific grants or portions of grants.
- The [Average Closing Price](#) of MSFT over the [Averaging Period](#) affects the Total Payment for your Eligible Options. In Step 2 below, we have provided what the Total Payment will be at different Average Closing Prices, so you may estimate how much you will receive. The Averaging Period is scheduled to begin on or before November 17, 2003 and continue for up to 15 [trading days](#).
- If the Total Payment is \$20,000 or less, it will be paid in full in one payment expected to be distributed in December 2003. Portions of the Total Payment in excess of \$20,000 may be subject to a payment schedule, as described in Step 3 below.
- **Your participation election must be RECEIVED by midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.** You may change your election until this deadline. After this deadline, no elections to participate or withdraw will be accepted.
- If you exercise any Eligible Options before the Election Deadline, those options will no longer be included in the Stock Option Transfer Program.
- We have provided a [Stock Option Transfer Program Guide](#) to help you make your decision.
- **The dates in this tool may change if Microsoft extends the Election Deadline.**

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#### Step 1 Review your stock options eligible for transfer

The table below lists your [Eligible Options](#). To expand the table to include all of your outstanding options (eligible and ineligible), click on the "Show..." link.

[Show All Outstanding Options](#)

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expiration Date</u>	<u>Options Eligible for Transfer</u>
			\$				
							<b>Totals:</b>

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#### Step 2 Review the estimated Total Payment

The table below shows the Total Payment over a range of possible Average Closing Prices. The modeling tool below allows you to enter a possible Average Closing Price and view the potential payment by grant. To update the modeling tool, enter a different assumed Average Closing Price up to \$40 and click Recalculate.

The Total Payment reflected by the model is based on the assumed Average Closing Price you selected so it **may not reflect** the actual Total Payment, which will only be determined following completion of the Averaging Period.

Assumed Average Closing Price	\$23	\$24	\$25	\$26	\$27	\$28	\$29	\$30	\$31
Total Payment (Pre-Tax)	\$	\$	\$	\$	\$	\$	\$	\$	\$

Assumed Average Closing Price: \$ Recalculate

Grant Date	Grant Number	Grant Type	Grant Price	Options Eligible for Transfer	Price per option (based on assumed Average Closing Price)	Total Payment, pre-tax (based on assumed Average Closing Price)
			\$		\$	\$
<b>Total Payment (Pre-Tax):</b>						\$

If you participate, you will receive an email shortly after the end of the Averaging Period notifying you that the amount of the Total Payment is available on <https://stock>.

### Step 3 Review your payment schedule based on your assumed Average Closing Price

You must be employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment. If you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the table below to receive the Contingent Payment(s). The payment schedule and conditions are detailed in the Notice.

The payment schedule displayed below is based on the assumed Average Closing Price of \$ as modeled in Step 2 above and **may not reflect** your actual Total Payment.

#### Payout Schedule:

Employed through Date	Estimated Time of Payout	Estimated Amount
11/12/2003	December 2003	\$
[11/12/2005	December 2005	\$ ]
[11/12/2006	December 2006	\$ ]
<b>Total Payment (Pre-Tax):</b>		\$

Depending on your country of employment, payment will be made to you through your payroll or by a third-party agent. Details regarding the payment process are available in the Stock Option Transfer Program Guide. This is an estimated payment schedule based on the current program effective dates and is subject to change.

*[Note: The following portions of Step 3 are conditional text that will appear only in certain cases, as described below]*

[An accumulated interest equivalent amount will be calculated and distributed with any Contingent Payment you receive, as detailed in the Notice. You will be able to view the Contingent Payment(s) at <https://stock> beginning in January 2004. Future payments are contingent on continued employment.] *[NOTE: This paragraph is conditional text that will only appear if the employee would be receive Contingent Payment(s), based on amount of the estimated Total Payment (Pre-Tax) and their country of employment]*

[Your payment schedule may be accelerated in the event of unanticipated tax treatment associated with the program in your country of employment. A summary of the tax treatment is available in the Notice.]

[NOTE: This paragraph is conditional text that will only appear if the employee is employed in a country where the payment schedule may be accelerated due to a pending tax ruling.]

[As described in the [Notice](#), because you are employed at Level 68 or above, a portion of your Total Payment will be in the form of Contingent Payment(s) even though other participating Eligible Employees in your country will receive their Total Payment without being subject to any Contingent Payment(s).] [NOTE: This paragraph is conditional text that will only appear if the employee is employed in Level 68 or above in Australia, Canada, Denmark, India, Spain or Venezuela or another country where the payment schedule is accelerated due to a pending tax ruling. The "Payout Schedule" chart set forth above for all employees in those countries would show the full payment in the December 2003 row.]

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#### **Step 4 Elect to participate by clicking the Participate button**

You need to click Participate below and follow Step 5 if you want to make an election to participate in the Stock Option Transfer Program. Employees in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay, also have to follow Step 6 to complete an election to participate in the Stock Option Transfer Program. If you do not want to participate, close this window.

By clicking Participate below and following the other required Step(s) described in the preceding paragraph, you agree and acknowledge that:

1. You elect to participate in the Stock Option Transfer Program;
2. You agree to the amendment of your [Eligible Options](#) on the terms and conditions contained in the Notice to Eligible Employees of Stock Option Transfer Program (the "[Notice](#)") which terms and conditions, including defined terms as used in this Employee Election Tool, are incorporated in your agreement to participate and transfer;
3. You agree to give up all rights you may have with respect to your Eligible Options and elect to Transfer them acknowledging that these options will not be reinstated for any reason if the Stock Option Transfer Program closes;
4. You are creating a binding contract concerning the terms and conditions of your amended Eligible Options and the transfer of such options, which will be governed by the laws of the State of Washington, U.S.A. and by Article 8 of the Uniform Commercial Code of Washington, and you understand that the confirmation you receive from Microsoft Corporation accepting your [Submitted Election](#) to participate in the Stock Option Transfer Program is evidence of that contract;
5. (a) Unless you are an employee specified in 5(b) below, you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options may be made electronically, pursuant to this Employee Election Tool, and that communications regarding your instruction to so transfer may be made by you to Microsoft via [compchg](#) and by Microsoft to you at your company email address; or  
(b) If you are an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically, including via facsimile, concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding your election and instruction to so transfer your Eligible Options or withdraw your election to participate may be made by you to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to you at the contact address that Microsoft currently has in its employee records;
6. You acknowledge that (i) the amount of the Total Payment is unknown and cannot be predicted with certainty as it will be determined by reference to the future price of Microsoft common stock; and (ii) no claim or entitlement to compensation or damages arises if the Average Closing Price is less or more than the price of Microsoft common stock at the end of the Election Period or at the time you make your election. You irrevocably release Microsoft and its subsidiaries from any such claim that may arise from any change in the price of Microsoft common stock;

7. You also acknowledge that you must remain continuously employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment and that if you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the Notice to receive the Contingent Payment(s); and

FOR VALUE RECEIVED, you, as the undersigned registered owner of the Eligible Options, hereby irrevocably agree to transfer all of your outstanding Eligible Options through the Stock Option Transfer Program, unless you withdraw your election to participate prior to the Election Deadline, or your Submitted Election is rejected, or the Stock Option Transfer Program is terminated pursuant to the terms and conditions in the Notice. You irrevocably instruct and direct Microsoft Corporation, as of the Election Deadline and pursuant to the terms and conditions in the Notice, to register the transfer of your Eligible Options on its books upon satisfaction of such terms and conditions. You intend and agree that, after the Election Deadline your agreement to transfer and your instruction to transfer shall be irrevocable and legally binding with the same force and effect as if you had manually executed a written instruction to that effect.

Participate            I elect to transfer all of my Eligible Options on the terms and subject to the conditions stated above. (Note: If you do not wish to participate, no action is required.)

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

[Go to the Stock Option Transfer Program Guide.](#)

You acknowledge that: (1) participation in the Stock Option Transfer Program is voluntary; (2) participation in the Stock Option Transfer Program does not create an express or implied promise or right to further employment with Microsoft or one of its subsidiaries or to any type of compensation or benefit (including stock options or future vesting of options) beyond the benefits described in the Notice; (3) participation in the Stock Option Transfer Program shall not interfere with the at-will nature of your employment relationship or with the ability of Microsoft or its subsidiaries to terminate your employment relationship at any time with or without cause, unless otherwise required by local laws in your country or a written contract signed by a Vice President; (4) your ability to participate in the Stock Option Transfer Program is an extraordinary item offered by Microsoft which is outside the scope of your employment contract, if any; (5) no claim or entitlement to compensation or damages arises from any termination of the Stock Option Transfer Program; and (6) any payment received under the Stock Option Transfer Program is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments.

All of your information that is displayed in this tool may be used by Microsoft Corporation and its affiliates and subsidiaries ("Microsoft") for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Go to <http://headtrax> or contact your local human resources representative if you need to update your information. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft's behalf to provide products and services to employees (including for example Mellon Investor Services LLC); third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

The information provided in this tool:

- Reflects stock splits through 2/18/03
- Reflects outstanding option grants as of 10/14/03
- Is displayed in US dollars

Stock Option Transfer Program  
Participation Confirmation

[Help](#)

Signing (Step 5 of 6)

You are confirming your election to participate in the Microsoft Stock Option Transfer Program.

You acknowledge that to be effective, your election must be received by midnight, New York City/Eastern Time (9:00PM U.S. Pacific Time) on November 12, 2003.

**John Doe**

[\_\_\_\_\_]

Employee Signature

(Type your name exactly as shown, including punctuation.)

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

You will receive a confirmation in Step 6 if you click Submit and this submission is received.

<Submit> <Cancel>



Stock Option Transfer Program  
Participation Confirmation

[Print](#) [Help](#)

Confirmation (Step 6 of 6)

Your election to participate in the Microsoft Stock Option Transfer Program on [date] at [time] U.S. Pacific Time has been received by Benefits.

Print a copy of this confirmation for your records.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<OK>

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[The following pages are the WITHDRAWAL pages of the tool for most employees:

Eligible Employees that have a participation election registered in the system would access the following web pages (unless they are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay).

The Tool has three conditional text scenarios that are set forth in Step 3 of these pages. An employee would only see the text if the language was applicable to the employee's situation, due to his or her pay level, country of employment and/or results of the Total Payment modeling in Step 3.]

Stock Option Transfer Program

You elected to participate in the Microsoft Stock Option Transfer Program on [date], 2003 at [time] U.S. Pacific Time.

You may withdraw this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003. (To withdraw your election, click the "Do Not Participate" button in Step 4 below and follow the instructions in Step 5.)

We are pleased to offer you this one-time opportunity to participate in the Stock Option Transfer Program. The decision whether to participate is up to you. If you choose not to participate, you will simply keep your stock options with their current terms and conditions.

We've provided this tool to help you make an informed decision. Additionally, we encourage you to consult other [resources](#) to assist you. PLEASE READ THE [NOTICE](#) CAREFULLY SO THAT YOU WILL UNDERSTAND THE RISKS OF PARTICIPATING BEFORE YOU MAKE ANY DECISIONS REGARDING WHETHER TO PARTICIPATE.

Important information about the Stock Option Transfer Program:

- You have \_\_\_\_\_ options at a grant price of \$33/share or above that are eligible (including \_\_\_\_\_ options that would be unvested at the end of the Election Period). Vested and unvested options are eligible, and you will be allowed to transfer both.
- Regardless of your decision to participate, you will retain your \_\_\_\_\_ options with a grant price below \$33/share with their existing terms and conditions.
- If you elect to participate in the Stock Option Transfer Program, you must transfer all of your [Eligible Options](#) and cannot elect to transfer only specific grants or portions of grants.
- The [Average Closing Price](#) of MSFT over the [Averaging Period](#) affects the Total Payment for your Eligible Options. In Step 2 below, we have provided what the Total Payment will be at different Average Closing Prices, so you may estimate how much you will receive. The Averaging Period is scheduled to begin on or before November 17, 2003 and continue for up to 15 [trading days](#).
- If the Total Payment is \$20,000 or less, it will be paid in full in one payment expected to be distributed in December 2003. Portions of the Total Payment in excess of \$20,000 may be subject to a payment schedule, as described in Step 3 below.
- **Your participation election must be RECEIVED by midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.** You may change your election until this deadline. After this deadline, no elections to participate or withdraw will be accepted.
- If you exercise any Eligible Options before the Election Deadline, those options will no longer be included in the Stock Option Transfer Program.
- We have provided a [Stock Option Transfer Program Guide](#) to help you make your decision.
- **The dates in this tool may change if Microsoft extends the Election Deadline.**

Step 1 Review your stock options eligible for transfer

The table below lists your [Eligible Options](#). To expand the table to include all of your outstanding options (eligible and ineligible), click on the "Show..." link.

[Show All Outstanding Options](#)

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expiration Date</u>	<u>Options Transferred</u>
			\$				
							<b>Totals:</b>

## Step 2 Review the estimated Total Payment

The table below shows the Total Payment over a range of possible Average Closing Prices. The modeling tool below allows you to enter a possible Average Closing Price and view the potential payment by grant. To update the modeling tool, enter a different assumed Average Closing Price up to \$40 and click Recalculate.

The Total Payment reflected by the model is based on the assumed Average Closing Price you selected so it **may not reflect** the actual Total Payment, which will only be determined following completion of the Averaging Period.

Assumed Average Closing Price	\$23	\$24	\$25	\$26	\$27	\$28	\$29	\$30	\$31
Total Payment (Pre-Tax)	\$	\$	\$	\$	\$	\$	\$	\$	\$

Assumed Average Closing Price: \$    Recalculate

Grant Date	Grant Number	Grant Type	Grant Price	Options Transferred	Price per option (based on assumed Average Closing Price)	Total Payment, pre-tax (based on assumed Average Closing Price)
			\$			
<b>Total Payment (Pre-Tax):</b>						\$

If you participate, you will receive an email shortly after the end of the Averaging Period notifying you that the amount of the Total Payment is available on <https://stock>.

## Step 3 Review your payment schedule based on your assumed Average Closing Price

You must be employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment. If you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the table below to receive the Contingent Payment(s). The payment schedule and conditions are detailed in the Notice.

The payment schedule displayed below is based on the assumed Average Closing Price of \$    as modeled in Step 2 above and **may not reflect** your actual Total Payment.

Payout Schedule:

Employed through Date	Estimated Time of Payout	Estimated Amount
11/12/2003	December 2003	\$
[11/12/2005	December 2005	\$ ]
[11/12/2006	December 2006	\$ ]
<b>Total Payment (Pre-Tax):</b>		\$

Depending on your country of employment, payment will be made to you through your payroll or by a third-party agent. Details regarding the payment process are available in the Stock Option Transfer Program Guide. This is an estimated payment schedule based on the current program effective dates and is subject to change.

[Note: The following portions of Step 3 are conditional text that will appear only in certain cases, as described below]

[An accumulated interest equivalent amount will be calculated and distributed with any Contingent Payment you receive, as detailed in the [Notice](#). You will be able to view the Contingent Payment(s) at <https://stock> beginning in January 2004. Future payments are contingent on continued employment.]

[NOTE: This paragraph is conditional text that will only appear if the employee would be receive Contingent Payment(s), based on amount of the estimated Total Payment (Pre-Tax) and their country of employment]

[Your payment schedule may be accelerated in the event of unanticipated tax treatment associated with the program in your country of employment. A summary of the tax treatment is available in the Notice.] [NOTE: This paragraph is conditional text that will only appear if the employee is employed in a country where the payment schedule may be accelerated due to a pending tax ruling.]

[As described in the [Notice](#), because you are employed at Level 68 or above, a portion of your Total Payment will be in the form of Contingent Payment(s) even though other participating Eligible Employees in your country will receive their Total Payment without being subject to any Contingent Payment(s).] [NOTE: This paragraph is conditional text that will only appear if the employee is employed in Level 68 or above in Australia, Canada, Denmark, India, Spain or Venezuela or another country where the payment schedule is accelerated due to a pending tax ruling. The "Payout Schedule" chart set forth above for all employees in those countries would show the full payment in the December 2003 row.]

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#### **Step 4 Elect to withdraw from the Stock Option Transfer Program by clicking the Do Not Participate button**

You need to click Do Not Participate below and follow Step 5 if you want to withdraw your previous election to participate in the Stock Option Transfer Program. Employees in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay, also have to follow Step 6 to complete a withdrawal of an election to participate in the Stock Option Transfer Program. If you do not want to withdraw your previous election to participate, close this window.

By clicking Do Not Participate below and following the other required Step(s) described in the preceding paragraph, you agree and acknowledge that:

1. You withdraw and rescind your election and instruction, and the contract that was created thereby, to Microsoft to transfer all of your outstanding Eligible Options through the Stock Option Transfer Program; and
2. You understand that withdrawing your election and instruction to transfer your Eligible Options means that you will not participate in the Stock Option Transfer Program, your options will not be transferred or amended, and you will retain your options with their current terms and conditions; and
3. (a) Unless you are an employee specified in 3(b), you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically concerning your [Eligible Options](#) and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options may be made electronically, pursuant to this Employee Election Tool, that communications regarding your instruction to so transfer may be made by you to Microsoft via [compchg](#) and by Microsoft to you at your company email address; or  
(b) If you are an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically, including via facsimile, concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding your instruction to so transfer your Eligible Options or withdraw your election to participate may be made by you to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to you at the contact address that Microsoft currently has in its employee records.

Do Not Participate            I do not elect to transfer my Eligible Options on the terms and subject to the conditions stated above.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

[Go to the Stock Option Transfer Program Guide.](#)

You acknowledge that: (1) participation in the Stock Option Transfer Program is voluntary; (2) participation in the Stock Option Transfer Program does not create an express or implied promise or right to further employment with Microsoft or one of its subsidiaries or to any type of compensation or benefit (including stock options or future vesting of options) beyond the benefits described in the Notice; (3) participation in the Stock Option Transfer Program shall not interfere with the at-will nature of your employment relationship or with the ability of Microsoft or its subsidiaries to terminate your employment relationship at any time with or without cause, unless otherwise required by local laws in your country or a written contract signed by a Vice President; (4) your ability to participate in the Stock Option Transfer Program is an extraordinary item offered by Microsoft which is outside the scope of your employment contract, if any; (5) no claim or entitlement to compensation or damages arises from any termination of the Stock Option Transfer Program; and (6) any payment received under the Stock Option Transfer Program is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments.

All of your information that is displayed in this tool may be used by Microsoft Corporation and its affiliates and subsidiaries ("Microsoft") for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Go to <http://headtrax> or contact your local human resources representative if you need to update your information. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft's behalf to provide products and services to employees (including for example Mellon Investor Services LLC); third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

The information provided in this tool:

- Reflects stock splits through 2/18/03
- Reflects outstanding option grants as of 10/14/03
- Is displayed in US dollars

Stock Option Transfer Program  
Withdrawal of Participation Election

[Help](#)

Confirm your election to withdraw (Step 5 of 6)

You are confirming your election to withdraw from the Microsoft Stock Option Transfer Program subject to the terms and conditions set forth in the Notice to Eligible Employees of Stock Option Transfer Program, incorporated herein by reference.

You acknowledge that to be effective, your election to withdraw must be received by midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.

**John Doe**

[\_\_\_\_\_]

Employee Signature

(Type your name exactly as shown, including punctuation.)

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

You will receive a confirmation in Step 6 if you click Submit and this submission is received.

<Submit> <Cancel>

Stock Option Transfer Program  
Withdrawal of Participation Election

[Print](#) [Help](#)

Confirmation (Step 6 of 6)

Your election to withdraw from the Microsoft Stock Option Transfer Program on [date] at [time] U.S. Pacific Time has been received by Benefits.

Print a copy of this confirmation for your records.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<OK>



[The following pages are the ELECTION TO PARTICIPATE pages of the tool for Eligible Employees employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay.

Eligible Employees employed in one of those countries would see the following pages if such an employee entered the Employee Election Tool at a time when they did not have a participation election registered in the system.

The Tool has three conditional text scenarios that are set forth in Step 3 of these pages. An employee would only see the text if the language was applicable to the employee's situation, due to his or her pay level, country of employment and/or results of the Total Payment modeling in Step 3.]

If an employee in one of these countries had previously validly elected to participate, then submitted a withdrawal of that election through the tool, but the hard copy withdrawal form had not been received by Mellon, the following text would appear at the very top of the tool:

**Your election to withdraw is pending the receipt of your signed hardcopy confirmation form. If you need access to the confirmation form again, click [here](#).**

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003. (To change your election, click the "Participate" button in Step 4 below and follow the instructions in Step 5.)**

## 2 step election process, online and hard copy:

### Stock Option Transfer Program

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We are pleased to offer you this one-time opportunity to participate in the Stock Option Transfer Program. The decision whether to participate is up to you. If you choose not to participate, you will simply keep your stock options with their current terms and conditions.

We've provided this tool to help you make an informed decision. Additionally, we encourage you to consult other [resources](#) to assist you. PLEASE READ THE [NOTICE](#) CAREFULLY SO THAT YOU WILL UNDERSTAND THE RISKS OF PARTICIPATING BEFORE YOU MAKE ANY DECISIONS REGARDING WHETHER TO PARTICIPATE.

#### Important information about the Stock Option Transfer Program:

- You have \_\_\_\_\_ options at a grant price of \$33/share or above that are eligible (including \_\_\_\_\_ options that would be unvested at the end of the Election Period). Vested and unvested options are eligible, and you will be allowed to transfer both.
- Regardless of your decision to participate, you will retain your \_\_\_\_\_ options with a grant price below \$33/share with their existing terms and conditions.
- If you elect to participate in the Stock Option Transfer Program, you must transfer all of your [Eligible Options](#) and cannot elect to transfer only specific grants or portions of grants.
- The [Average Closing Price](#) of MSFT over the [Averaging Period](#) affects the Total Payment for your Eligible Options. In Step 2 below, we have provided what the Total Payment will be at different Average Closing Prices, so you may estimate how much you will receive. The Averaging Period is scheduled to begin on or before November 17, 2003 and continue for up to 15 [trading days](#).
- If the Total Payment is \$20,000 or less, it will be paid in full in one payment expected to be distributed in December 2003. Portions of the Total Payment in excess of \$20,000 may be subject to a payment schedule, as described in Step 3 below.
- **Your participation election must be RECEIVED by midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.** You may change your election until this deadline. After this deadline, no elections to participate or withdraw will be accepted.
- If you exercise any Eligible Options before the Election Deadline, those options will no longer be included in the Stock Option Transfer Program.
- We have provided a [Stock Option Transfer Program Guide](#) to help you make your decision.
- **The dates in this tool may change if Microsoft extends the Election Deadline.**

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#### Step 1 Review your stock options eligible for transfer

The table below lists your [Eligible Options](#). To expand the table to include all of your outstanding options (eligible and ineligible), click on the "Show..." link.

[Show All Outstanding Options](#)

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expiration Date</u>	<u>Options Eligible for Transfer</u>
			\$				
							<b>Totals:</b>

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#### Step 2 Review the estimated Total Payment

The table below shows the Total Payment over a range of possible Average Closing Prices. The modeling tool below allows you to enter a possible Average Closing Price and view the potential payment by grant.

To update the modeling tool, enter a different assumed Average Closing Price up to \$40 and click Recalculate.

The Total Payment reflected by the model is based on the assumed Average Closing Price you selected so it **may not reflect** the actual Total Payment, which will only be determined following completion of the Averaging Period.

Assumed Average Closing Price	\$23	\$24	\$25	\$26	\$27	\$28	\$29	\$30	\$31
Total Payment (Pre-Tax)	\$	\$	\$	\$	\$	\$	\$	\$	\$

Assumed Average Closing Price: \$ Recalculate

Grant Date	Grant Number	Grant Type	Grant Price	Options Eligible for Transfer	Price per option (based on assumed Average Closing Price)	Total Payment, pre-tax (based on assumed Average Closing Price)
			\$		\$	\$
<b>Total Payment (Pre-Tax):</b>						\$

If you participate, you will receive an email shortly after the end of the Averaging Period notifying you that the amount of the Total Payment is available on <https://stock>.

### Step 3 Review your payment schedule based on your assumed Average Closing Price

You must be employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment. If you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the table below to receive the Contingent Payment(s). The payment schedule and conditions are detailed in the Notice.

The payment schedule displayed below is based on the assumed Average Closing Price of \$ as modeled in Step 2 above and **may not reflect** your actual Total Payment.

#### Payout Schedule:

Employed through Date	Estimated Time of Payout	Estimated Amount
11/12/2003	December 2003	\$
[11/12/2005	December 2005	\$ ]
[11/12/2006	December 2006	\$ ]
<b>Total Payment (Pre-Tax):</b>		\$

Depending on your country of employment, payment will be made to you through your payroll or by a third-party agent. Details regarding the payment process are available in the Stock Option Transfer Program Guide. This is an estimated payment schedule based on the current program effective dates and is subject to change.

*[Note: The following portions of Step 3 are conditional text that will appear only in certain cases, as described below]*

*[An accumulated interest equivalent amount will be calculated and distributed with any Contingent Payment you receive, as detailed in the Notice. You will be able to view the Contingent Payment(s) at <https://stock> beginning in January 2004. Future payments are contingent on continued employment.] [NOTE: This paragraph is conditional text that will only appear if the employee would be receive Contingent Payment(s), based on amount of the estimated Total Payment (Pre-Tax) and their country of employment]*

[Your payment schedule may be accelerated in the event of unanticipated tax treatment associated with the program in your country of employment. A summary of the tax treatment is available in the [Notice](#).] [NOTE: This paragraph is conditional text that will only appear if the employee is employed in a country where the payment schedule may be accelerated due to a pending tax ruling.]

[As described in the [Notice](#), because you are employed at Level 68 or above, a portion of your Total Payment will be in the form of Contingent Payment(s) even though other participating Eligible Employees in your country will receive their Total Payment without being subject to any Contingent Payment(s).]

[NOTE: This paragraph is conditional text that will only appear if the employee is employed in Level 68 or above in Australia, Canada, Denmark, India, Spain or Venezuela or another country where the payment schedule is accelerated due to a pending tax ruling. The "Payout Schedule" chart set forth above for all employees in those countries would show the full payment in the December 2003 row.]

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#### **Step 4 Elect to participate by clicking the Participate button**

You need to click Participate below and follow Step 5 if you want to make an election to participate in the Stock Option Transfer Program. Employees in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay, also have to follow Step 6 to complete an election to participate in the Stock Option Transfer Program. If you do not want to participate, close this window.

By clicking Participate below and following the other required Step(s) described in the preceding paragraph, you agree and acknowledge that:

1. You elect to participate in the Stock Option Transfer Program;
2. You agree to the amendment of your [Eligible Options](#) on the terms and conditions contained in the Notice to Eligible Employees of Stock Option Transfer Program (the "[Notice](#)") which terms and conditions, including defined terms as used in this Employee Election Tool, are incorporated in your agreement to participate and transfer;
3. You agree to give up all rights you may have with respect to your Eligible Options and elect to Transfer them acknowledging that these options will not be reinstated for any reason if the Stock Option Transfer Program closes;
4. You are creating a binding contract concerning the terms and conditions of your amended Eligible Options and the transfer of such options, which will be governed by the laws of the State of Washington, U.S.A. and by Article 8 of the Uniform Commercial Code of Washington, and you understand that the confirmation you receive from Microsoft Corporation accepting your [Submitted Election](#) to participate in the Stock Option Transfer Program is evidence of that contract;
5. (a) Unless you are an employee specified in 5(b) below, you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options may be made electronically, pursuant to this Employee Election Tool, and that communications regarding your instruction to so transfer may be made by you to Microsoft via [compchg](#) and by Microsoft to you at your company email address; or  
(b) If you are an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically, including via facsimile, concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding your election and instruction to so transfer your Eligible Options or withdraw your election to participate may be made by you to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to you at the contact address that Microsoft currently has in its employee records;
6. You acknowledge that (i) the amount of the Total Payment is unknown and cannot be predicted with certainty as it will be determined by reference to the future price of Microsoft common stock; and (ii) no claim or entitlement to compensation or damages arises if the Average Closing Price is less or more than the price of Microsoft common stock at the end of the Election Period or at the time you make your election. You irrevocably release Microsoft and its subsidiaries from any such claim that may arise from any change in the price of Microsoft common stock;

7. You also acknowledge that you must remain continuously employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment and that if you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the Notice to receive the Contingent Payment(s); and

FOR VALUE RECEIVED, you, as the undersigned registered owner of the Eligible Options, hereby irrevocably agree to transfer all of your outstanding Eligible Options through the Stock Option Transfer Program, unless you withdraw your election to participate prior to the Election Deadline, or your Submitted Election is rejected, or the Stock Option Transfer Program is terminated pursuant to the terms and conditions in the Notice. You irrevocably instruct and direct Microsoft Corporation, as of the Election Deadline and pursuant to the terms and conditions in the Notice, to register the transfer of your Eligible Options on its books upon satisfaction of such terms and conditions. You intend and agree that, after the Election Deadline your agreement to transfer and your instruction to transfer shall be irrevocable and legally binding with the same force and effect as if you had manually executed a written instruction to that effect.

Participate            I elect to transfer all of my Eligible Options on the terms and subject to the conditions stated above. (Note: If you do not wish to participate, no action is required.)

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

[Go to the Stock Option Transfer Program Guide.](#)

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You acknowledge that: (1) participation in the Stock Option Transfer Program is voluntary; (2) participation in the Stock Option Transfer Program does not create an express or implied promise or right to further employment with Microsoft or one of its subsidiaries or to any type of compensation or benefit (including stock options or future vesting of options) beyond the benefits described in the Notice; (3) participation in the Stock Option Transfer Program shall not interfere with the at-will nature of your employment relationship or with the ability of Microsoft or its subsidiaries to terminate your employment relationship at any time with or without cause, unless otherwise required by local laws in your country or a written contract signed by a Vice President; (4) your ability to participate in the Stock Option Transfer Program is an extraordinary item offered by Microsoft which is outside the scope of your employment contract, if any; (5) no claim or entitlement to compensation or damages arises from any termination of the Stock Option Transfer Program; and (6) any payment received under the Stock Option Transfer Program is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments.

All of your information that is displayed in this tool may be used by Microsoft Corporation and its affiliates and subsidiaries ("Microsoft") for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Go to <http://headtrax> or contact your local human resources representative if you need to update your information. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft's behalf to provide products and services to employees (including for example Mellon Investor Services LLC); third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

The information provided in this tool:

- Reflects stock splits through 2/18/03
- Reflects outstanding option grants as of 10/14/03
- Is displayed in US dollars

Stock Option Transfer Program  
Participation Confirmation Form

[Help](#)

Signing (Step 5 of 6)

**Your election to participate is not complete unless Mellon Investor Services receives your signed confirmation form before the Election Deadline.**

Click Submit below to view and print your hard copy of the confirmation in Step 6.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<Submit> <Cancel>

Confirmation (Step 6 of 6)

Name: John Doe  
Personnel Number: 123456

- **Print** a copy of this confirmation.

**Your election to participate in the Microsoft Stock Option Transfer Program will not be complete unless a signed copy of this confirmation form is received by Mellon Investor Services by the Election Deadline.**

- **Sign, date and fax** a copy of this form to Mellon Investor Services at (201) 329-8456 or mail a copy of this form to Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.
- **Keep** a copy of the signed form for your records.

Your participation status will be reflected in this tool within two business days of receipt of your signed confirmation form by Mellon Investor Services.

I agree and acknowledge that:

1. I elect to participate in the Stock Option Transfer Program;
2. I agree to the amendment of my Eligible Options on the terms and conditions contained in the Notice to Eligible Employees of Stock Option Transfer Program (the "Notice") which terms and conditions, including defined terms as used in this Employee Election Tool, are incorporated in the agreement to participate and transfer;
3. I agree to give up all rights I may have with respect to my Eligible Options and elect to transfer them acknowledging that these options will not be reinstated for any reason if the Stock Option Transfer Program closes;
4. I am creating a binding contract concerning the terms and conditions of my amended Eligible Options and the transfer of such options, which will be governed by the laws of the State of Washington, U.S.A. and by Article 8 of the Uniform Commercial Code of Washington, and I understand that the confirmation I receive from Microsoft Corporation accepting my Submitted Election to participate in the Stock Option Transfer Program is evidence of that contract;
5. (a) Unless I am an employee specified in 5(b) below, I agree with Microsoft that each of us may receive and transmit information electronically concerning my Eligible Options and the transfer of those options. I also agree that my election and instruction to so transfer my Eligible Options be made electronically, pursuant to this Employee Election Tool, and that communications regarding my instruction to so transfer may be made by me to Microsoft via compchng and by Microsoft to me at my company email address; or  
(b) If I am an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay I agree with Microsoft that each of us may receive and transmit information electronically, including via facsimile, concerning my Eligible Options and the transfer of those options. I also agree that my election and instruction to so transfer my Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding my instruction to so transfer my Eligible Options or withdraw my election to participate may be made by me to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to me at the contact address the Microsoft currently has in its employee records;
6. I acknowledge that (i) the amount of the Total Payment is unknown and cannot be predicted with certainty as it will be determined by reference to the future price of Microsoft common stock; and (ii) no claim or entitlement to compensation or damage arises if the Average Closing Price is less or more than the price of Microsoft common stock at the end of the Election Period or at the time I make my election. I

irrevocably release Microsoft and its subsidiaries from any such claim that may arise from any changes in the price of Microsoft common stock;

7. I also acknowledge that I must remain continuously employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment and that if I am eligible to receive any Contingent Payment(s), I must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the Notice to receive the Contingent Payment(s); and

FOR VALUE RECEIVED, I, as the undersigned registered owner of my Eligible Options, hereby irrevocably agree to transfer all of my outstanding Eligible Options through the Stock Option Transfer Program, unless I withdraw my election to participate prior to the Election Deadline, or my Submitted Election is rejected, or the Stock Option Transfer Program is terminated pursuant to the terms and conditions in the Notice. I irrevocably instruct and direct Microsoft Corporation, as of the Election Deadline and pursuant to the terms and conditions in the Notice, to register the transfer of my Eligible Options on its books upon satisfaction of such terms and conditions. I intend and agree that, after the Election Deadline my agreement to transfer and my instruction to transfer shall be irrevocable and legally binding with the same force and effect as if I had manually executed a written instruction to that effect.

**John Doe** \_\_\_\_\_

**Date** \_\_\_\_\_

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<OK>



The following pages are the WITHDRAWAL pages of the tool for Eligible Employees employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay:

Eligible Employees employed in one of these countries would see the following pages if such an employee entered the Employee Election Tool at a time when they had a participation election registered in the system.

If an employee in one of these countries had previously entered an election to participate through the Tool, but the hard copy election form had not been received by Mellon, the following text would appear at the very top of the tool:

**Your election to participate is pending the receipt of your signed hardcopy confirmation form. If you need access to the confirmation form again, click [here](#).**

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003. (To change your election, click the “Do Not Participate” button in Step 4 below and follow the instructions in Step 5 and 6.)**

## 2 step election withdrawal process, online and hard copy:

### Stock Option Transfer Program

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You elected to participate in the Microsoft Stock Option Transfer Program on [date] at [time] U.S. Pacific Time.

You may withdraw this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003. (To withdraw your election, click the "Do Not Participate" button in Step 4 below and follow the instructions in Step 5.)

We are pleased to offer you this one-time opportunity to participate in the Stock Option Transfer Program. The decision whether to participate is up to you. If you choose not to participate, you will simply keep your stock options with their current terms and conditions.

We've provided this tool to help you make an informed decision. Additionally, we encourage you to consult other [resources](#) to assist you. PLEASE READ THE [NOTICE](#) CAREFULLY SO THAT YOU WILL UNDERSTAND THE RISKS OF PARTICIPATING BEFORE YOU MAKE ANY DECISIONS REGARDING WHETHER TO PARTICIPATE.

#### Important information about the Stock Option Transfer Program:

- You have \_\_\_\_\_ options at a grant price of \$33/share or above that are eligible (including \_\_\_\_\_ options that would be unvested at the end of the Election Period). Vested and unvested options are eligible, and you will be allowed to transfer both.
- Regardless of your decision to participate, you will retain your \_\_\_\_\_ options with a grant price below \$33/share with their existing terms and conditions.
- If you elect to participate in the Stock Option Transfer Program, you must transfer all of your [Eligible Options](#) and cannot elect to transfer only specific grants or portions of grants.
- The [Average Closing Price](#) of MSFT over the [Averaging Period](#) affects the Total Payment for your Eligible Options. In Step 2 below, we have provided what the Total Payment will be at different Average Closing Prices, so you may estimate how much you will receive. The Averaging Period is scheduled to begin on or before November 17, 2003 and continue for up to 15 [trading days](#).
- If the Total Payment is \$20,000 or less, it will be paid in full in one payment expected to be distributed in December 2003. Portions of the Total Payment in excess of \$20,000 may be subject to a payment schedule, as described in Step 3 below.
- **Your participation election must be RECEIVED by midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.** You may change your election until this deadline. After this deadline, no elections to participate or withdraw will be accepted.
- If you exercise any Eligible Options before the Election Deadline, those options will no longer be included in the Stock Option Transfer Program.
- We have provided a [Stock Option Transfer Program Guide](#) to help you make your decision.
- **The dates in this tool may change if Microsoft extends the Election Deadline.**

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#### Step 1 Review your stock options eligible for transfer

The table below lists your [Eligible Options](#). To expand the table to include all of your outstanding options (eligible and ineligible), click on the "Show..." link.

[Show All Outstanding Options](#)

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expiration Date</u>	<u>Options Transferred</u>
			\$				
							<b>Totals:</b>

### Step 2 Review the estimated Total Payment

The table below shows the Total Payment over a range of possible Average Closing Prices. The modeling tool below allows you to enter a possible Average Closing Price and view the potential payment by grant. To update the modeling tool, enter a different assumed Average Closing Price up to \$40 and click Recalculate.

The Total Payment reflected by the model is based on the assumed Average Closing Price you selected so it **may not reflect** the actual Total Payment, which will only be determined following completion of the Averaging Period.

Assumed Average Closing Price	\$23	\$24	\$25	\$26	\$27	\$28	\$29	\$30	\$31
Total Payment (Pre-Tax)	\$	\$	\$	\$	\$	\$	\$	\$	\$

Assumed Average Closing Price: \$      Recalculate

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Options Transferred</u>	<u>Price per option (based on assumed Average Closing Price)</u>	<u>Total Payment, pre-tax (based on assumed Average Closing Price)</u>
			\$			
<b>Total Payment (Pre-Tax):</b>						\$

If you participate, you will receive an email shortly after the end of the Averaging Period notifying you that the amount of the Total Payment is available on <https://stock>.

### Step 3 Review your payment schedule based on your assumed Average Closing Price

You must be employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment. If you are eligible to receive any Contingent Payment(s), you must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the table below to receive the Contingent Payment(s). The payment schedule and conditions are detailed in the Notice.

The payment schedule displayed below is based on the assumed Average Closing Price of \$      as modeled in Step 2 above and **may not reflect** your actual Total Payment.

#### Payout Schedule:

<u>Employed through Date</u>	<u>Estimated Time of Payout</u>	<u>Estimated Amount</u>
11/12/2003	December 2003	\$
[11/12/2005	December 2005	\$ ]
[11/12/2006	December 2006	\$ ]
<b>Total Payment (Pre-Tax):</b>		\$

Depending on your country of employment, payment will be made to you through your payroll or by a third-party agent. Details regarding the payment process are available in the Stock Option Transfer

**Program Guide.** This is an estimated payment schedule based on the current program effective dates and is subject to change.

*[Note: The following portions of Step 3 are conditional text that will appear only in certain cases, as described below]*

[An accumulated interest equivalent amount will be calculated and distributed with any Contingent Payment you receive, as detailed in the [Notice](#). You will be able to view the Contingent Payment(s) at <https://stock> beginning in January 2004. Future payments are contingent on continued employment.]

*[NOTE: This paragraph is conditional text that will only appear if the employee would be receive Contingent Payment(s), based on amount of the estimated Total Payment (Pre-Tax) and their country of employment]*

[Your payment schedule may be accelerated in the event of unanticipated tax treatment associated with the program in your country of employment. A summary of the tax treatment is available in the [Notice](#).] *[NOTE: This paragraph is conditional text that will only appear if the employee is employed in a country where the payment schedule may be accelerated due to a pending tax ruling.]*

[As described in the [Notice](#), because you are employed at Level 68 or above, a portion of your Total Payment will be in the form of Contingent Payment(s) even though other participating Eligible Employees in your country will receive their Total Payment without being subject to any Contingent Payment(s).]

*[NOTE: This paragraph is conditional text that will only appear if the employee is employed in Level 68 or above in Australia, Canada, Denmark, India, Spain or Venezuela or another country where the payment schedule is accelerated due to a pending tax ruling. The "Payout Schedule" chart set forth above for all employees in those countries would show the full payment in the December 2003 row.]*

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#### **Step 4 Elect to withdraw from the Stock Option Transfer Program by clicking the Do Not Participate button**

You need to click Do Not Participate below and follow Step 5 if you want to withdraw your previous election to participate in the Stock Option Transfer Program. Employees in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay, also have to follow Step 6 to complete a withdrawal of an election to participate in the Stock Option Transfer Program. If you do not want to withdraw your previous election to participate, close this window.

By clicking Do Not Participate below and following the other required Step(s) described in the preceding paragraph, you agree and acknowledge that:

1. You withdraw and rescind your election and instruction, and the contract that was created thereby, to Microsoft to transfer all of your outstanding Eligible Options through the Stock Option Transfer Program; and
2. You understand that withdrawing your election and instruction to transfer your Eligible Options means that you will not participate in the Stock Option Transfer Program, your options will not be transferred or amended, and you will retain your options with their current terms and conditions; and
3. (a) Unless you are an employee specified in 3(b), you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically concerning your [Eligible Options](#) and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options may be made electronically, pursuant to this Employee Election Tool, that communications regarding your instruction to so transfer may be made by you to Microsoft via [compchg](#) and by Microsoft to you at your company email address; or  
(b) If you are an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay you agree with Microsoft that each of you and Microsoft may receive and transmit information electronically, including via facsimile, concerning your Eligible Options and the transfer of those options. You also agree that your election and instruction to so transfer your Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding your instruction to so transfer your Eligible Options or withdraw your election to participate may be made by you to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to you at the contact address that Microsoft currently has in its employee records.

Do Not Participate I do not elect to transfer my Eligible Options on the terms and subject to the conditions stated above.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

[Go to the Stock Option Transfer Program Guide.](#)

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You acknowledge that: (1) participation in the Stock Option Transfer Program is voluntary; (2) participation in the Stock Option Transfer Program does not create an express or implied promise or right to further employment with Microsoft or one of its subsidiaries or to any type of compensation or benefit (including stock options or future vesting of options) beyond the benefits described in the Notice; (3) participation in the Stock Option Transfer Program shall not interfere with the at-will nature of your employment relationship or with the ability of Microsoft or its subsidiaries to terminate your employment relationship at any time with or without cause, unless otherwise required by local laws in your country or a written contract signed by a Vice President; (4) your ability to participate in the Stock Option Transfer Program is an extraordinary item offered by Microsoft which is outside the scope of your employment contract, if any; (5) no claim or entitlement to compensation or damages arises from any termination of the Stock Option Transfer Program; and (6) any payment received under the Stock Option Transfer Program is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments.

All of your information that is displayed in this tool may be used by Microsoft Corporation and its affiliates and subsidiaries ("Microsoft") for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Go to <http://headtrax> or contact your local human resources representative if you need to update your information. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft's behalf to provide products and services to employees (including for example Mellon Investor Services LLC); third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

The information provided in this tool:

- Reflects stock splits through 2/18/03
- Reflects outstanding option grants as of 10/14/03
- Is displayed in US dollars

Stock Option Transfer Program  
Withdrawal of Participation

[Help](#)

Signing (Step 5 of 6)

**Your election to withdraw from the Microsoft Stock Option Transfer Program is not complete unless Mellon Investor Services receives your signed confirmation form before the Election Deadline.**

Click Submit below to view and print your hard copy of the confirmation in Step 6.

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<Submit> <Cancel>

Stock Option Transfer Program  
Withdrawal of Participation

[Print](#) [Help](#)

Confirmation (Step 6 of 6)

Name: John Doe  
Personnel Number: 123456

- **Print** a copy of this confirmation

**Your election not to participate in the Microsoft Stock Option Transfer Program will not be complete unless a signed copy of this confirmation form is received by Mellon Investor Services by the Election Deadline.**

- **Sign, date** and **fax** a copy of this form to Mellon Investor Services at (201) 329-8456 or mail a copy of this form to Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA.
- **Keep** a copy of the signed form for your records.

Your participation status will be reflected in this tool within two business days of receipt of your signed confirmation form by Mellon Investor Services.

I agree and acknowledge that:

1. I withdraw and rescind my election and instruction, and the contract that was created thereby, to Microsoft to transfer all of my outstanding Eligible Options through the Stock Option Transfer Program, and

2. I understand that withdrawing my election and instruction to transfer my Eligible Options means that I will not participate in the Stock Option Transfer Program, my options will not be transferred or amended, and I will retain my options with their current terms and conditions; and

3. (a) Unless I am an employee specified in 3(b), I agree with Microsoft that each of us may receive and transmit information electronically concerning my Eligible Options and the transfer of those options. I also agree that my election and instruction to so transfer my Eligible Options may be made electronically, pursuant to this Employee Election Tool, that communications regarding my instruction to so transfer may be made by me to Microsoft via compchng and by Microsoft to me at my company email address; or

(b) If I am an employee located in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay I agree with Microsoft that each of us may receive and transmit information electronically, including via facsimile, concerning my Eligible Options and the transfer of such options. I also agree that my election and instruction to so transfer my Eligible Options shall be made to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding my instruction to so transfer my Eligible Options or withdraw my election to participate may be made by me to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to me at the contact address that Microsoft currently has in its employee records.

**John Doe** \_\_\_\_\_

**Date** \_\_\_\_\_

**You may change this election at any time until the end of the Election Period at midnight New York City/Eastern Time (9:00 PM U.S. Pacific Time) on November 12, 2003.**

<OK>

**IMPORTANT: You only need to complete and return this form if you want to make an election to participate in the Stock Option Transfer Program.**

**Microsoft Corporation Stock Option Transfer Program  
Election to Participate**

[Employee Name]  
PersonnelNbr

LT #:

To: Microsoft Corporation (in care of Mellon Investor Services LLC)

I acknowledge that I have received from Microsoft Corporation the Notice to Eligible Employees of Stock Option Transfer Program (the "Notice"). Capitalized terms used in this form have the meaning given to them in the Notice and as provided in the Defined Terms.

I understand that my Eligible Options as of October 14, 2003 were those set forth in the table below. If I exercise any such stock options before the Election Deadline, I understand that those stock options will no longer be included in the Stock Option Transfer Program.

**Your Eligible Options**

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expiration Date</u>	<u>Options Eligible for Transfer</u>
			\$				
						<b>Totals:</b>	

**Estimated Total Payment**

I understand that the table below shows the estimated Total Payment over a range of possible Average Closing Prices. I also understand that the Total Payment will only be determined following completion of the Averaging Period.

<b>Assumed Average Closing Price</b>	\$ 23	\$ 24	\$ 25	\$ 26	\$ 27	\$ 28	\$ 29	\$ 30	\$ 31
<b>Total Payment (Pre-Tax)</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$

**Total Payment schedule based on an assumed Average Closing Price**

Assumed Average Closing Price of \$

<u>Grant Date</u>	<u>Grant Number</u>	<u>Grant Type</u>	<u>Grant Price</u>	<u>Options Eligible for Transfer</u>	<u>Price per option (based on assumed Average Closing Price)</u>	<u>Total Payment (Pre-Tax) (based on assumed Average Closing Price)</u>
					\$	\$
					<b>Total Payment (Pre-Tax) :</b>	
						\$



**Payment Schedule:**

<u>Employed through Date</u>	<u>Estimated Time of Payout</u>	<u>Estimated Amount</u>
11/12/2003	December 2003	\$
[11/12/2005	December 2005	\$ ]
[11/12/2006	December 2006	\$ ]
<b>Total Payment (Pre-Tax):</b>		\$

I understand that I must remain employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment. I also understand that if I am eligible to receive any Contingent Payment(s), I must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the Notice to receive the Contingent Payment(s). The payment schedule and conditions are detailed in the Notice.

The payment schedule and specific grant level pricing set forth above is based on an assumed Average Closing Price of \$ and may not reflect the actual Total Payment or your actual payment schedule (which may depend on the amount of the Total Payment, your pay level and country in which you are employed). I understand that the Employee Election Tool is available at <https://stock> under the Option Transfer tab, through which I may display my personal stock option grant data and model the potential Total Payment at a specific stock price. I also understand that I may contact the Stock Services Group by emailing [compchg@microsoft.com](mailto:compchg@microsoft.com) or calling (425) 706-8853 for assistance with such modeling.

**PARTICIPATION in the Stock Option Transfer Program**

If you wish to participate, you must submit a completed and signed election form in accordance with the instructions provided below.

**ELECTION TO PARTICIPATE**

I understand that by checking the "I ELECT" box and signing my name below, I agree and acknowledge that:

- (1) I elect to participate in the Stock Option Transfer Program;
- (2) I agree to the amendment of my Eligible Options on the terms and conditions contained in the Notice to Eligible Employees of Stock Option Transfer Program (the "Notice"), which terms and conditions are incorporated in my agreement to participate and transfer;
- (3) I agree to give up all rights I may have with respect to my Eligible Options and elect to transfer them acknowledging that these options will not be reinstated for any reason if the Stock Option Transfer Program closes;
- (4) I am creating a binding contract concerning the terms and conditions of my amended Eligible Options and the transfer of such options, which will be governed by the laws of the State of Washington, U.S.A. and by Article 8 of the Uniform Commercial Code of Washington;
- (5) I agree with Microsoft that each of us may receive and transmit information electronically, including via facsimile, concerning my Eligible Options and the transfer of those options. I also agree that my election and instruction to so transfer my Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding my election and instruction to so transfer my Eligible Options or withdraw my election to participate may be made by me to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to me at the contact address that Microsoft currently has in its employee records;
- (6) I acknowledge that (i) the amount of the Total Payment is unknown and cannot be predicted with certainty as it will be determined by reference to the future price of Microsoft common stock; and (ii) no claim or entitlement to compensation or damages arises if the Average Closing Price is less or more than the price of Microsoft common stock at the end of the Election Period or at the time I make my election. I irrevocably release Microsoft and its subsidiaries from any such claim that may arise from any change in the price of Microsoft common stock;

- (7) I also acknowledge that I must remain continuously employed by Microsoft or one of its subsidiaries through the Election Deadline to receive any payment and that if I am eligible to receive any Contingent Payment(s), I must remain continuously employed by Microsoft or one of its subsidiaries through the date(s) specified in the Notice to receive the Contingent Payment(s); and

FOR VALUE RECEIVED, I, as the undersigned registered owner of my Eligible Options, hereby irrevocably agree to transfer all of my outstanding Eligible Options through the Stock Option Transfer Program, unless I withdraw my election to participate prior to the Election Deadline, or my Submitted Election is rejected, or the Stock Option Transfer Program is terminated pursuant to the terms and conditions in the Notice. I irrevocably instruct and direct Microsoft Corporation, as of the Election Deadline and pursuant to the terms and conditions in the Notice, to register the transfer of my Eligible Options on its books upon satisfaction of such terms and conditions. I intend and agree that, after the Election Deadline my agreement to transfer and my instruction to transfer shall be irrevocable and legally binding with the same force and effect as if I had manually executed a written instruction to that effect.

Check this box if you elect to transfer all of your Eligible Options on the terms and conditions stated above.

**I ELECT** to transfer my Eligible Options on the terms and subject to the conditions stated above.

Date: \_\_\_\_\_

\_\_\_\_\_  
EMPLOYEE SIGNATURE  
[Employee Full Name]

**If you elect to participate, please sign and date this election form  
and fax it to the number below or send it by mail or courier to one of the addresses set forth below.**

**Keep a copy for your records.**

**To be effective this form must be SIGNED and RECEIVED by Mellon by the Election Deadline.  
You may change this election at any time until the end of the Election Period.**

By Facsimile:

(201) 329-8456  
Confirm Receipt of Facsimile  
By Telephone: 1-800-853-4970  
(calling from within the U.S.)  
+(201) 329-8246 (calling from  
outside the U.S.)

By Mail:

Mellon Investor Services LLC  
Attn: Reorganization Dept.  
P.O. Box 3301 South Hackensack,  
NJ 07606  
USA

By Overnight Courier:

Mellon Investor Services LLC  
Attn: Reorganization Dept.  
85 Challenger Road  
Mail Stop - Reorg.  
Ridgefield Park, NJ 07660  
USA

You acknowledge that: (1) participation in the Stock Option Transfer Program is voluntary; (2) participation in the Stock Option Transfer Program does not create an express or implied promise or right to further employment with Microsoft or one of its subsidiaries or to any type of compensation or benefit (including stock options or future vesting of options) beyond the benefits described in the Notice; (3) participation in the Stock Option Transfer Program shall not interfere with the at-will nature of your employment relationship or with the ability of Microsoft or its subsidiaries to terminate your employment relationship at any time with or without cause, unless otherwise required by local laws in your country or a written contract signed by a Vice President; (4) your ability to participate in the Stock Option Transfer Program is an extraordinary item offered by Microsoft which is outside the scope of your employment contract, if any; (5) no claim or entitlement to compensation or damages arises from any termination of the Stock Option Transfer Program; and (6) any payment received under the Stock Option Transfer Program is not part of normal or expected compensation or salary for purposes of calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, overtime, long-service awards, pension or retirement benefits or similar payments.

All of your information that is described in this form may be used by Microsoft Corporation and its affiliates and subsidiaries (“Microsoft”) for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft’s behalf to provide products and services to employees; third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

The information provided on this form:

- Reflects stock splits through 2/18/03
- Reflects outstanding option grants as of 10/14/03
- Is displayed in US dollars

**IMPORTANT: You only need to complete and return this form if you want to withdraw a previous election to participate in the Stock Option Transfer Program. If you do not want to participate and you have not previously elected to participate you do not need to take any action.**

**Microsoft Corporation Stock Option Transfer Program  
Withdrawal Form**

[Employee Name]  
PersonnelNbr

LT #:

Ladies and Gentlemen:

I acknowledge that I have received from Microsoft Corporation the Notice of Stock Option Transfer Program (the "Notice"). Capitalized terms used in this form have the meaning given to them in the Notice.

**WITHDRAWAL OF A PREVIOUS ELECTION TO PARTICIPATE**

I understand that by checking the "I WITHDRAW" box and signing my name below, I agree and acknowledge that I:

1. Withdraw and rescind my election and instruction, and the contract that was created thereby, to Microsoft to transfer all of my outstanding Eligible Options through the Stock Option Transfer Program;
2. Understand that withdrawing my election and instruction to transfer my Eligible Options means that I will not participate in the Stock Option Transfer Program, my options will not be transferred or amended, and I will retain my options with their current terms and conditions; and
3. Agree with Microsoft that each of us may receive and transmit information electronically, including via facsimile, concerning my Eligible Options and the transfer of those options. I also agree that my election and instruction to so transfer my Eligible Options shall be made to Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA" and that communications regarding my election and instruction to so transfer my Eligible Options or withdraw my election to participate may be made by me to Mellon Investor Services at the same facsimile number or address, and by Mellon Investor Services and/or Microsoft to me at the contact address that Microsoft currently has in its employee records.

**I WITHDRAW** my previous election to participate in the Stock Option Transfer Program. My Eligible Options will not be transferred to JPMorgan.

Date: \_\_\_\_\_

\_\_\_\_\_  
EMPLOYEE SIGNATURE  
[Employee Full Name]

**If you wish to withdraw a previous election, please sign and date this form and fax it to the number below or send it by mail or courier to one of the addresses set forth below.**

**Keep a copy for your records.**

**To be effective this form must be SIGNED and RECEIVED by Mellon by the Election Deadline. You may change this election at any time until the end of the Election Period.**

By Facsimile:

(201) 329-8456

Confirm Receipt of Facsimile

By Telephone: 1-800-853-4970

(calling from within the U.S.)

+ (201) 329-8246 (calling from outside the U.S.)

By Mail:

Mellon Investor Services LLC

Attn: Reorganization Dept.

P.O. Box 3301 South

Hackensack, NJ 07606

USA

By Overnight Courier: Mellon

Investor Services LLC

Attn: Reorganization Dept.

85 Challenger Road

Mail Stop - Reorg.

Ridgefield Park, NJ 07660

USA

All of your information that is described in this form may be used by Microsoft Corporation and its affiliates and subsidiaries ("Microsoft") for administering and managing your participation in the Stock Option Transfer Program and any other appropriate business purpose. Microsoft will transfer this information to, and store this information in, Redmond, Washington, U.S.A. When necessary, Microsoft may transfer to, or share this information with: its affiliates and subsidiaries for any appropriate business purpose; third party agents acting on Microsoft's behalf to provide products and services to employees; third parties as Microsoft determines is necessary to protect or defend its rights or property or the safety or property of its personnel; in the course of litigation; and as required by law, regulation, or court order. Microsoft will not disclose your information outside Microsoft without your consent except as provided above.

[MSFT Logo]

October 15, 2003

Dear [Employee] (actual name of ee here):

We are pleased to offer you this one-time opportunity to transfer your employee stock options with an exercise price per share equal to or greater than \$33.00 per share. The decision whether to participate is up to you. If you choose not to participate, you will simply keep your options with their current terms and conditions.

***In This Packet***

This packet contains important information about the Stock Option Transfer Program, including:

- This cover letter.
- The Notice to Eligible Employees of Stock Option Transfer Program, which contains the terms and conditions of the Stock Option Transfer Program.
- The document "Understanding the Stock Option Transfer Program."
- A personalized form for making or revoking your election to participate in the Stock Option Transfer Program.
- Defined Terms and a list of Program Resources and Assistance, which we encourage you to use.

PLEASE READ THE NOTICE CAREFULLY SO THAT YOU WILL UNDERSTAND THE RISKS OF PARTICIPATING BEFORE YOU MAKE ANY DECISIONS REGARDING WHETHER TO PARTICIPATE.

***Important Information about the Stock Option Transfer Program:***

- Regardless of your decision to participate, you will retain your stock options with a grant price below \$33/share with their existing terms and conditions.
- If you elect to participate in the Stock Option Transfer Program, you must transfer all of your Eligible Options and cannot elect to transfer only specific grants or portions of grants.
- The Average Closing Price of MSFT over the Averaging Period affects the Total Payment for your Eligible Options. The Averaging Period is scheduled to begin no later than November 17, and continue for up to 15 trading days.
- If the Total Payment is US\$20,000 or less, it will be paid in full in one payment expected to be distributed in December 2003. Portions of the Total Payment in excess of US\$20,000 may be subject to a payment schedule, as described in the Notice.
- **Your participation election must be RECEIVED by midnight New York City/Eastern time (9:00 PM U.S. Pacific time) on November 12, 2003.** You may change your election until this deadline. After this deadline, no elections to participate or withdraw will be accepted.
- If you exercise any Eligible Options before the Election Deadline, those options will no longer be included in the Stock Option Transfer Program.
- **The dates in this letter may change if Microsoft extends the Election Deadline.**

***Additional Information and/or Resources***

The Employee Election Tool is available at <https://stock> under the Option Transfer tab. In addition to displaying your personal stock option grant data and potential Total Payment over a range of stock prices, which is replicated on the enclosed election form, this tool allows you to model the potential Total Payment at a specific stock price. You may also contact the Stock Services Group by emailing [compchng@microsoft.com](mailto:compchng@microsoft.com) or calling (425) 706-8853 for assistance with such modeling.

### ***How To Participate***

To elect to participate or to withdraw a previous election to participate, in the Stock Option Transfer Program:

Complete the enclosed hard copy election form and send it to Mellon Investor Services (“Mellon”) or use the Employee Election Tool. Microsoft has engaged Mellon to handle the administration of the Stock Option Transfer Program for employees on leave of absence. Detailed instructions, a fax number, and mailing addresses are listed on the election form. You must submit the signed election form to Mellon; do not return the signed election form to Microsoft.

**For your election to be valid, it must be RECEIVED by Mellon by Midnight New York City/Eastern time (9:00 PM U.S. Pacific time), on November 12, 2003, unless the deadline is extended by Microsoft through a public announcement. If Microsoft extends the deadline, you must make your election by the new election deadline.** You are responsible for ensuring the successful delivery of your election form. Please allow for enough delivery time based on the method of delivery that you choose to ensure Mellon receives your election form on time. The Election Deadline will be strictly enforced.

Please carefully separate the Election Form from this letter before submitting your election. The Withdrawal Form is on the reverse side of this letter.

### ***Deciding Whether to Participate***

Keep in mind that participation in the Stock Option Transfer Program is completely voluntary. If you choose not to participate, you will retain your current options under their current terms and conditions.

You should carefully read the Notice, as well as the other information we’ve provided, before you decide whether to participate. In addition, we encourage you to seek advice from your personal financial, legal and/or tax advisors to weigh the benefits and risks involved in participating in the Stock Option Transfer Program.

### ***For More Information***

For additional information or assistance, you should contact Mellon Investor Services. Customer service representatives are available Monday through Friday from 6:00 AM to 6:00 PM, Pacific Time (U.S.) at:

- 1-800-853-4970 (Calling from within the U.S.)
- +(201) 329-8246 (Calling from outside the U.S.)

For information about the Total Payment at prices different than those set forth in the chart included on your election form, you may contact the Microsoft Stock Services team by calling (425) 706-8853 or by emailing [compchng@microsoft.com](mailto:compchng@microsoft.com).

Regards,

Ken DiPietro

Vice President, Human Resources

Microsoft Corporation

## GETTING STARTED: STOCK OPTION TRANSFER PROGRAM GUIDE

Welcome to the Stock Option Transfer Program resource center. We realize this Program is very unique and we want to provide you with a comprehensive set of resources and information to assist you in making an informed decision.

Notice of Stock Option Transfer Program: The Notice contains detailed information about the terms and conditions of this Program. It is important that you read this document. Contained within the Notice are disclosures required by rules of the U.S. Securities and Exchange Commission. The Notice also contains a Guide with country-specific tax summaries and other information.

Understanding the Stock Option Transfer Program: We understand this Program involves concepts that may be new to you. This document provides the context behind some of the Program elements in an easy-to-use-format designed to get you started in your decision making process.

Factors to Consider: This provides some factors that you should consider in making your decision. Please take time to review the information provided here and in the Notice as resources available to you in your decision making process.

Employee Election Tool: Review your personal information, model potential proceeds, and make your election using this tool. You need to make your final participation decision before **Midnight New York City/Eastern Time (9:00 pm U.S. Pacific Time) on Wednesday, November 12, 2003 unless this deadline is extended as specified in the Notice.** No elections to participate or withdraw can be accepted after the deadline.

Program Resources and Assistance: As with any new program, we realize you may have questions or may like to talk with someone further to understand how this Program may work for you. You may email compchg or call (425)706-8853 (from 6:00am to 6:00pm U.S. Pacific Time) with specific questions. Program resources and assistance available to you include access to financial advisors through American Express for general questions. We also encourage you to talk to your own personal financial or tax advisor on the benefits and risks of this program.

In summary, here is a list of all resources available to eligible employees in the Program

- [The Notice](#)
- [Understanding the Stock Option Transfer Program](#)
- [Factors to Consider](#)
- [Employee Election Tool](#)
- [Program Resources and Assistance](#)
- [Defined Terms](#)
- [Payment Process](#)



## UNDERSTANDING THE STOCK OPTION TRANSFER PROGRAM (THE “PROGRAM”)

This information provides a high-level summary of some aspects of the Program. It is not meant to be a substitute for the [Notice of Stock Option Transfer Program](#) (the “Notice”), which contains detailed information on the Program. Please read the Notice carefully so that you will understand the opportunities and risks of the Program before you make any decisions about whether to participate. This is a completely voluntary program. We realize that everyone’s financial situation is different and it’s important that you make a decision that’s right for you. As described in the Notice, the dates noted below are subject to change.

### **How the Program works**

#### **The Program**

Microsoft Corporation is making available to eligible employees a one-time opportunity to realize some value for certain underwater employee stock options through a Stock Option Transfer Program. Microsoft has developed this Program with JPMorgan and its affiliates.

Employees may elect to transfer options to JPMorgan, which will pay an amount equal to the Total Payments for all transferred options to Microsoft. Microsoft will be responsible for making payments to employees.

The period during which you may participate or withdraw will end on November 12, 2003, unless the Election Period is formally extended by Microsoft as described in the Notice.

None of Microsoft, its Board of Directors or JPMorgan makes any recommendation as to whether you should participate.

#### **Eligibility**

Most employees with **stock options at grant prices higher than \$33** are eligible to participate.

**Unvested as well as vested options are eligible.** If you elect to participate in the Program, you must transfer all of your Eligible Options and cannot elect to transfer only specific grants or portions of grants.

Note: Employees in Belgium, Italy and Pakistan are ineligible due to local restrictions.

### **Why it’s this way.**

This Program is part of the compensation changes announced in July.

The goal of the Program is to address underwater stock options in a way that is in line with shareholder interests. Microsoft expects that the payments it receives from JPMorgan and the interest earned on those funds will be sufficient to pay the Total Payments so that other Microsoft assets won’t be required for those payments.

From a compensation perspective, we believe those options with grant prices near or under the current market price are still providing the originally intended retention value and incentive for employees. Setting the eligibility threshold at the \$33 grant price enables us to include the majority of outstanding underwater options.

Including both vested and unvested options allows employees to receive more value from this one-time program and helps transition employees to the new Stock Awards program by delivering value over the short term while employees vest in any Stock Awards issued under the new compensation plan.

## How the Program works

### **Total Payment determined following an Averaging Period**

The **amount you will receive will be determined based on the Average Closing Price of MSFT stock** during an Averaging Period that will begin shortly after the election period ends and will continue for a number of trading days currently expected to be 15 trading days.

At the time the Election Period ends and your election to participate becomes irrevocable, you will not know the price to be paid for your options.

You can determine what the Total Payment will be at different Average Closing Prices using the Election Tool at <https://stock> under the Option Transfer tab. The Total Payment reflected by the tool is based on the assumed Average Closing Price you select, so if the price you select is not the actual Average Closing Price, it will not reflect the actual Total Payment you receive.

The pricing methodology used to determine how much JPMorgan will be paying for each option was determined by negotiations between Microsoft and JPMorgan in part by reference to Black Scholes and other stock option pricing models. In order to balance this opportunity with shareholder interests, the terms of the options after transfer to JPMorgan will be different than your options. The expiration date of many options will be reduced to 3 years (and some options held by L68+ will be reduced to 2 years). The effect of these changes was to reduce the amount that JPMorgan would have paid if the expiration date were not shortened.

### **Estimated time of payment**

If you elect to participate, it's important to remember that **any payments are subject to the completion of the Program** as described in the Notice. The Program completion and your payment will not be confirmed until the end of the Averaging Period.

You **must be employed through the Election Deadline**, currently expected to be November 12, to receive any payment.

**Total Payments of US\$20,000 or less** will be paid in one payment. Microsoft plans to distribute these payments by December 31, 2003.

## Why it's this way

In designing the pricing mechanism for the Program, we have sought to obtain optimal pricing for your Eligible Options. As described in the Notice, in order to provide improved pricing for transferred Eligible Options, JPMorgan will hedge its risk of owning the options after JPMorgan knows how many Eligible Options will be transferred under the Program.

We decided not to fix the price for each Eligible Option prior to the Election Deadline because, if we had done so, the price that JPMorgan would have been willing to pay for each Eligible Option would have been based on a significant discount to our then current stock price. The price per Eligible Option that JPMorgan will pay under the Stock Option Transfer Program is based on actual market prices (the Average Closing Price during the Averaging Period) as opposed to some significantly discounted actual market price.

Having decided to determine the Total Payment after the Election Deadline, we then decided to use an Averaging Period so that the Total Payment that you receive for your Eligible Options will be based on the value of our common stock over a representative period of time, and will be less subject to any short-term price fluctuations. JPMorgan or its affiliates will be selling shares of our common stock in connection with their hedging. Because these sales may involve a large volume of our stock, if these sales were conducted on a single day or over a shorter period, these sales could have increased the risk of any downward pressure on our stock price (and therefore on the Total Payment for your Eligible Options).

In consideration of employee motivation, retention goals and administrative factors, we updated the payment schedule originally announced in July. The new payment schedule best meets the Program objectives, especially when taking into account the fact that the Program includes both vested and unvested options.

## **How the Program works**

Employees with a **Total Payment over US\$20,000** will receive the greater of US\$20,000 or one-third of their Total Payment upfront. Microsoft plans to distribute these payments by December 31, 2003. The remainder of the Total Payment, referred to as Contingent Payments, will be paid out over the following schedule:

- Employees through Level 67 will receive their total remaining payment in December 2005.
- Employees at Levels 68 and above will receive their remaining payment in equal installments in December 2005 and December 2006.

An accumulated interest equivalent amount will be paid with any Contingent Payment you receive.

In order to receive any Contingent Payment or interest equivalent amount, you must remain continuously employed by Microsoft or one of its subsidiaries through the second and (if applicable) the third anniversary of the end of the Averaging Period.

The expected payment dates may change based on administrative considerations. Employees in some countries may not be subject to a payment schedule due to local factors, such as tax or regulatory issues. Your expected individual payment schedule can be viewed at the Employee Election Tool at <https://stock> under the Option Transfer tab and in the [Notice](#).

## **How timing will work**

Your **participation election must be received by the Election Deadline currently expected to be midnight New York City/Eastern time (9:00 pm U.S. Pacific Time) on November 12**. Instructions for correctly submitting your election to participate are included in the Election Tool at <https://stock> under the Option Transfer tab and in the [Notice](#).

The Averaging Period will begin following the Election Deadline and is currently scheduled to begin no later than November 17 and will continue for a number of trading days currently expected to be 15 trading days.

Following the Averaging Period, employees who properly elected to participate, and did not withdraw by the Election Deadline, will receive an email confirming their final Total Payment can be viewed at <https://stock>.

## **Why it's this way**

The election period is 20 business days, a period required to comply with U.S. securities regulations.

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**Please read the Notice of Stock Option Transfer Program carefully so that you will understand the opportunities and risks of participating before you make any decisions regarding whether to participate.**

**The dates provided above will change if the Election Period is extended.**

## FACTORS TO CONSIDER

Your participation in the Program is completely voluntary. To help you make an informed decision on whether to participate in the Stock Option Transfer Program, we have summarized some factors to consider as part of your decision making process. A more complete discussion of factors to consider is located in the Notice. We encourage you to read the entire [Notice of Stock Option Transfer Program](#). This will help you evaluate the risks and opportunities before you make any decision regarding whether to participate. Additionally, we also encourage you to consult with your personal financial consultant or tax advisor regarding this Program.

<b>Factor</b>	<b>Consideration</b>
Your participation decision will be made at a time when you will not know the Total Payment	The Total Payment you model in the Employee Election Tool shows the Total Payment for an assumed Average Closing Price. The actual Total Payment can only be determined after the Averaging Period, when the Average Closing Price is known.
The terms and conditions of your current stock option grants, including grant price(s), vesting dates, expiration dates and your personal assessment of the future market price of MSFT stock prior to the expiration date of your Eligible Options.	<p>You should think about all the terms and conditions of your Eligible Options along with the likelihood of your continued employment at Microsoft or one of its subsidiaries. Additionally, you should also take into account your thoughts about the potential future value of MSFT stock in relation to your Eligible Options versus the estimated value you could realize through the Program.</p> <p>If you retain your Eligible Options instead of participating in the Program, and MSFT stock price rises far enough above your grant price (prior to expiration), you could potentially receive more value from exercising your options than by participating in the Program.</p> <p>Conversely, if MSFT stock price does not rise above the grant price of your Eligible Options before they expire, and you do not participate in the Program, you would not receive any value.</p>
Timing of payments	You should consider when you will receive the proceeds from this program as part of your overall cash and financial needs. The payment schedule is detailed in the Notice and Employee Election Tool.
Your personal financial situation and goals	You should consider your financial portfolio management, diversification strategy, risk tolerance and your current need for cash as well as the tax implications. A summary of the tax implications by country is provided at the end of the Notice.
The Stock Option Transfer Program is a one-time opportunity	We do not plan to make any options transferable in the future or to offer a similar transfer program again. If you do not participate, you will retain your current options under their original terms and conditions.

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Please read the Notice of Stock Option Transfer Program carefully so that you will understand the risks of participating before you make any decisions regarding whether to participate.

None of Microsoft, Microsoft's Board of Directors or JPMorgan makes any recommendation as to whether you should participate in the Stock Option Transfer Program. In addition, we have not authorized anyone to provide you with information different from that contained in the Notice. Your participation in this Program is completely voluntary. You must make your own decision whether or not to transfer your Eligible Options.

**STOCK OPTION TRANSFER PROGRAM RESOURCES AND ASSISTANCE**

We encourage you to consult with your financial, tax and/or legal advisors to help you evaluate the risks and opportunities before you make any decision regarding participation. Your advisors can obtain a copy of the Notice from the SEC's website at [www.sec.gov](http://www.sec.gov). You may also want to provide them with the summary documents "[Understanding the Stock Option Transfer Program](#)" and "[Factors to Consider](#)".

Microsoft has made the following resources available to you. You may call (425)705-8853 to reach any of the telephone resources, or you may call the direct numbers as indicated.

**Microsoft Stock Services Team**

Email "[compchg](mailto:compchg)" or call (425)705-8853 for participation status and Employee Election Tool support questions or to request a copy of the Notice.

The Employee Election Tool is located on – <https://stock> under the Option Transfer tab.

**Mellon Investor Services**

Call 800-853-4970 (US toll free) or +201-329-8246 (International Collect) between the hours of 6:00 am and 6:00 pm Pacific Time, for program clarification questions (for example – "What is the Averaging Period?").

**American Express Financial Advisors**

Call 888-827-4015 (US toll free) or +612-678-4994 (Outside US) between the hours of 6:00 am and 6:00 pm Pacific Time, for assistance in thinking about factors that you might want to consider ("Factors to Consider").

Visit <https://microsoft.aexpseminars.com> to sign up for a seminar in your area (US only).

**MICROSOFT STOCK OPTION TRANSFER PROGRAM  
DEFINED TERMS USED IN THE EMPLOYEE ELECTION TOOL**

(A complete list of defined Terms is set forth on page 40 of the Notice of Stock Option Program)

<b>Term</b>	<b>Definition</b>
Available Trading Day	A trading day on which (a) there is no market disruption, (b) Microsoft's registration statement is available (pursuant to the terms of our agreements with JPMorgan) to be used by JPMorgan in connection with JPMorgan's hedging activities, and (c) if JPMorgan so requests, we or our counsel has delivered a statement to JPMorgan regarding the availability of such registration statement.
Average Closing Price	The arithmetic average (rounded up to the nearest 1/10,000 of a dollar) of the official Nasdaq closing price of our common stock for every Available Trading Day during the Averaging Period.
Averaging Period	The period beginning no later than the first business day following the second calendar day after the Election Deadline and ending on and including the earlier of (i) Monday, December 15, 2003 or (ii) the 15th consecutive Available Trading Day.
Contingent Payment	The one or two portions of the Total Payment, remaining after payment of the Initial Payment, to be made after the applicable period of vesting.
Election Period	The period during which you may elect to participate in or to withdraw from the Stock Option Transfer Program, beginning on Wednesday, October 15, 2003 and ending as of the Election Deadline currently scheduled to be Midnight, New York City/Eastern Time, on Wednesday, November 12, 2003.
Election Deadline	The date and time at which the Election Period for the Stock Option Transfer Program will end, which will be Wednesday, November 12, 2003, at Midnight, New York City/Eastern Time, unless we extend it as explained in Section 7 of the Terms and Conditions.
Eligible Employee	A person who: <ul style="list-style-type: none"> <li>• holds Eligible Options;</li> <li>• is an employee of Microsoft or one of its subsidiaries (including a part-time employee or an employee on leave of absence) during the entire Election Period, up to and including the Election Deadline;</li> <li>• is not an advisor or consultant of Microsoft or its subsidiaries or a member of the Board of Directors; and</li> <li>• is not employed in Belgium, Italy or Pakistan.</li> </ul>
Eligible Option	Options or share appreciation rights that: <ol style="list-style-type: none"> <li>1. are vested and unvested stock options, incentive stock options, and share appreciation rights;</li> <li>2. are outstanding from the first day of the Election Period up to and including the Election Deadline;</li> <li>3. were granted under the Microsoft 1991 Stock Option Plan, the Microsoft 2001 Stock Plan, the employee stock option plan that Microsoft assumed in connection with Microsoft's acquisition of Visio Corporation, or the 1997 Share Appreciation Rights Plan (together, the "Option Plans");</li> <li>4. have an exercise price per share (or in the case of a share appreciation right, a grant date value) equal to or greater than \$33.00; and</li> <li>5. expire on or after February 29, 2004.</li> </ol>
Initial Payment	The payment we intend to make no later than December 31, 2003 in the amounts described in the payment schedules in the Notice.
market disruption	In respect of our common stock, the occurrence or existence of (i) any suspension of or limitation imposed by Nasdaq, the Archipelago Exchange ("ARCA"), the Chicago Board Options Exchange (the "CBOE") or otherwise on trading of our common stock or futures or options contracts relating to our common stock; (ii) any event (other



than an event described in clause (iii) below) that materially disrupts or impairs the ability of market participants to effect transactions in, or obtain market value for, our common stock or futures or options contracts relating to our common stock at any time during the one hour period that ends the regular trading session of Nasdaq, ARCA or the CBOE; (iii) the closure of Nasdaq, ARCA or the CBOE on any trading day on which it is open for trading during its regular trading session, prior to its scheduled closing time unless such earlier closing time is announced by Nasdaq, ARCA or the CBOE, as the case may be, at least one hour prior to the earlier of (A) the actual closing time for the regular trading session or (B) the submission deadline for orders to be executed at the end of the regular trading session; or (iv) any trading day on which Nasdaq, ARCA or the CBOE, as the case may be, fails to open for trading during its regular trading session.

Submitted Election

Your proper and timely use of any of these methods (or another method as otherwise specified in writing by our Chief Financial Officer, General Counsel, or Vice President of Human Resources) to submit an election to participate or an election to withdraw from participation. To be timely, your election must be RECEIVED before the Election Deadline either by us via the Employee Election Tool or by Mellon Investor Services via facsimile at (201) 329-8456 or by mail to "Mellon Investor Services LLC, Attn: Reorganization Dept., P.O. Box 3301, South Hackensack, NJ 07606, USA." If you are employed in Argentina, Brazil, Bulgaria, Chile, Czech Republic, Dominican Republic, Egypt, France, Germany, Guatemala, Indonesia, Kuwait, Latvia, Lebanon, Morocco, Oman, Paraguay, Russia, Turkey or Uruguay and you make your election using the Employee Election Tool, then in addition to your online election, Mellon Investor Services must RECEIVE the signed copy of your Election Form either by facsimile or by mail before the Election Deadline.

Total Payment

The sum of the Initial Payment and Contingent Payment(s), if any, for your Eligible Options. If the Total Payment to you is \$20,000 or less, you will receive 100% of the Total Payment upfront. If the Total Payment exceeds \$20,000, you will be paid the greater of (i) 33.33% of the Total Payment, or (ii) \$20,000, upfront; the remainder will be a Contingent Payment(s), subject to vesting, except if you are employed in certain foreign countries.

trading day

Any day (except November 28, 2003) on which Nasdaq, ARCA or the CBOE, as the case may be, is scheduled to be open for trading for its regular trading session.

## METHOD OF PAYMENT

Depending on your country of employment, your Stock Option Transfer proceeds will be paid either through your local payroll or through Mellon Investor Services, as a payment agent of Microsoft Corporation.

Participants employed in the following countries will receive their payment through local payroll:

Argentina	Malaysia
Austria	New Zealand
Canada	Norway
China	South Africa
Costa Rica	Spain
Finland	Sweden
France	Switzerland
Germany	Trinidad & Tobago
India	United Kingdom
Ireland	United States
Israel	Vietnam
Jamaica	

Participants employed in the following countries will be contacted by Mellon Investor Services following the Election Period for bank account information and will receive their payment through Mellon Investor Services.

Australia	Mauritius
Bolivia	Mexico
Brazil	Morocco
Bulgaria	Nigeria
Chile	Oman
Colombia	Panama
Croatia	Paraguay
Czech Republic*	Peru
Denmark	Philippines
Dominican Republic	Poland
Ecuador	Portugal
Egypt	Romania
El Salvador	Russia
Greece	Saudi Arabia
Guatemala	Serbia and Montenegro (Yugoslavia)
Hong Kong	Singapore**
Hungary	Slovakia
Indonesia	Slovenia
Ivory Coast	Taiwan
Japan	Thailand
Jordan	Tunisia
Kenya	Turkey
Korea	United Arab Emirates (Dubai)
Kuwait	Uruguay
Latvia	Venezuela
Lebanon	

\*Depending on the outcome of discussions with the Czech Ministry of Finance, employees in the Czech Republic may receive their payment through local payroll.

\*\*In the event the Central Provident Fund ("CPF") Board determines that CPF contributions are due on the proceeds, employees in Singapore will receive their payment through local payroll.

[Press release dated July 8, 2003, relating to employee compensation]

## **Microsoft Reshapes Compensation for Continued Success**

### **Company Will Grant Stock Awards to More Closely Align Interests Of Employees and Shareholders; Company Also Will Expense Equity Compensation**

**REDMOND, Wash. — July 8, 2003** —Microsoft Corp. today announced changes in employee compensation that CEO Steve Ballmer said “will help the company continue to attract and retain the best employees, and better align their interests with those of our shareholders. These changes are a key step in our ongoing effort to position Microsoft for long-term success.”

Starting in September 2003, employees will be granted Stock Awards instead of stock options. The Stock Award program offers employees the opportunity to earn actual shares of Microsoft stock over time, rather than options that give employees the right to purchase stock at a set price.

As part of the changes, the company announced that a significant portion of stock-based compensation for more than 600 of Microsoft’s senior leaders will depend on growth in the number and satisfaction of Microsoft customers. Ballmer and Chairman and Chief Software Architect Bill Gates will not receive Stock Awards, just as they have never received stock options throughout the company’s history.

Microsoft also said it is working on a plan to enable employees to realize some value on the portion of their stock options that are currently “underwater,” by selling their options to a third-party financial institution. If approved, the company expects to implement this plan by the end of 2003.

“Our compensation philosophy is simple,” Ballmer said. “We want to be a magnet for the best people by paying smarter. We want to attract and retain employees by offering real ownership and great long-term financial incentives. And we want to ensure that our senior employees’ total compensation is even more closely linked to growth in the number and satisfaction of our customers.”

While many companies provide stock awards, commonly known as restricted stock units, to executives, Microsoft is one of the first major corporations in which every employee will be eligible to become a direct owner of the company through Stock Awards.

The new compensation plan is the result of more than a year of review by Microsoft’s senior executive team and human resources staff, and it reflects significant feedback from employees about compensation and related issues. The new plan represents another step in an ongoing evolution of Microsoft’s business processes designed to position Microsoft for long-term growth:

- In April 2002, the company reorganized its business and marketing structure to focus on seven core businesses; it also has made significant changes to how the product groups and the field sales force collaborate to meet customer needs.
- In June 2002, Microsoft updated its mission, and articulated a set of values and tenets for how the company would work internally, as well as with partners and customers.
- The company has sharpened the focus of its nearly \$5 billion investment in R&D innovation around an integrated platform strategy and the forthcoming “Longhorn” wave of products.
- In a business plan sent to employees last month, the company outlined key priorities, including improving connections with customers, increasing internal efficiency, and meeting competitive challenges, especially those surrounding Linux.

As a result of the changes in its compensation approach, Microsoft indicated that starting with its 2004 fiscal year, the company will begin expensing all equity-based compensation, including previously granted stock options.

“Because Stock Awards must be expensed as they vest, we will include the cost of all equity-based compensation in both future and prior years’ financial statements to preserve year-over-year comparability,” said John Connors, senior vice president, finance and administration, and chief financial officer at Microsoft. “We agree with others in our industry that there’s no one-size-fits-all approach when it comes to equity compensation programs and the resultant accounting for them. Every company has a unique set of circumstances, and this is the appropriate accounting treatment for our new compensation plan.”

Founded in 1975, Microsoft (Nasdaq “MSFT”) is the worldwide leader in software, services and Internet technologies for personal and business computing. The company offers a wide range of products and services designed to empower people through great software — any time, any place and on any device.

Microsoft is a registered trademark of Microsoft Corp. in the United States and/or other countries.

The names of actual companies and products mentioned herein may be the trademarks of their respective owners.

*Note to editors:* If you are interested in viewing additional information on Microsoft, please visit the Microsoft® Web page at <http://www.microsoft.com/presspass/> on Microsoft’s corporate information pages. Web links, telephone numbers and titles were correct at time of publication, but may since have changed. For additional assistance, journalists and analysts may contact Microsoft’s Rapid Response Team or other appropriate contacts listed at <http://www.microsoft.com/presspass/contactpr.asp>.

[Email communication from Steve Ballmer to Microsoft employees on July 8, 2003]

Today, we are breaking new ground with an innovative approach to compensation that will offer employees a competitive and more stable level of equity-based income than they've received during the past five years. This pioneering program reaffirms our commitment to creating an environment that encourages people to do their best work, and where the value of your individual contribution and our collective efforts is appropriately recognized.

Microsoft has long believed in the importance of offering employees a strong and competitive compensation package of base pay, bonus, benefits and equity compensation. The equity component – historically offered in the form of stock options – was designed to tie long-term employee incentive compensation to company performance.

In keeping with Microsoft's progressive compensation philosophy, and in light of input from employees through the MS Poll and focus groups, we now believe there is a better way to provide significant equity compensation to employees that is both more stable and predictable.

#### **New Stock Award Program**

Starting in September 2003, we will be granting Stock Awards instead of stock options. Granted annually, Stock Awards will vest over a period of five years – and, as they vest, they will enable you to earn actual shares of Microsoft stock. The value of Stock Awards isn't tied to a given strike price, and they don't have an expiration date.

At other companies, this kind of Stock Award is typically reserved for executives. We believe in giving everyone the opportunity to be an owner and to share in the success of the company. Doing so provides a direct link between the interests of employees and shareholders.

In addition, for more than 600 of Microsoft's senior leaders, a significant portion of their Stock Awards will depend on growth in the number and satisfaction of Microsoft customers.

The new compensation plan is another important step in a systematic effort to reshape Microsoft's business processes and strategy to position the company for long-term success.

A year ago we articulated a new and enduring mission for our company, and published a set of values and tenets to guide how we work internally and with partners and customers.

We have crystallized our business and marketing efforts to focus on seven core businesses, deepened our leadership team, and streamlined how the product groups and the field collaborate to meet customer needs.

We have sharpened the focus of our nearly \$5 billion investment in R&D innovation around an integrated platform strategy and the Longhorn wave of products.

And the business plan I shared with you in early June prioritizes what we must do to improve internal efficiency, get a closer connection with customers, and meet competitive challenges, especially Linux.

#### **Underwater Options**

We know that many of you are concerned about your underwater options. To address this, we are collaborating with JP Morgan to introduce an innovative solution that would enable employees to realize some value for all vested and unvested options with grant prices of \$33 or greater.

Participation in this plan will be up to you; you'll be able to choose between selling all or none of your eligible options. More specifics on pricing will be provided before you make your decision. If you choose not to participate, you will simply keep your current options, and they will retain their current terms and conditions.

Under this plan, the value you would receive will depend on factors including the grant price of your options. We currently expect that options with a grant price of \$33 could be sold for approximately \$2.00. Options with a grant price of \$42 could be sold for approximately \$.60. Options with a grant price of \$45 could be sold for approximately \$.25. Actual values could be more or less, and will be determined when the plan is implemented. The program will be structured to supply some upfront payments together with subsequent payments over time, which would be subject to continued employment.

We need SEC review on this part of the plan, and our goal is to implement it by the end of the calendar year. We will give you more details when the plan is finalized, but I wanted to you to be aware that we are exploring ways to provide value for your options.

Because Stock Awards must be expensed as they vest, Microsoft will include the cost of all equity-based compensation in both future and prior years' financial statements to preserve year-over-year comparability.

Given the nature of these compensation changes, I know that everyone will be eager to get more information. Your manager will be providing details in the next couple of weeks, and you can get [more information](#) online. As Ken DiPietro indicated in an all-company mail earlier today, you also are invited to a virtual company meeting today, at 2 p.m. Redmond time, where Bill, Ken and John Connors will join me to discuss the thinking behind the changes, and to provide more detail about its implementation. Further details about accessing the virtual company meeting online are below.

### **Going Forward**

We believe this new compensation plan is the right direction for employees, for shareholders, and for the company. It provides a competitive compensation package for employees today, and excellent financial growth opportunities based on the company's future performance. In particular, we think the Stock Awards, equity incentives for our most senior employees, and the plan for addressing underwater options provide a stronger sense of ownership – and greater financial stability – for employees.

While there are many things we need to execute on well over the next few years, I have never been more confident that we have the right values, vision, priorities, organizational structure and, most importantly, the right people, to continue to prosper as the world's leading software company. The changes we're announcing today will continue to make Microsoft a great and rewarding place to work.

Steve

### ***Accessing the Virtual Company Meeting***

To access the meeting live today at 2 p.m. PDT, go to: <http://winme>. Note that Remote PPTP/RAS and some wireless LAN users cannot access live Multicast content on Corpnet (MS Intranet). However, all users can access the meeting On Demand at <http://winme> approximately four hours after the live session. If you have questions you'd like to submit, send them to <mailto:execqa> and we will try to get as many answered as possible. For employees in the U.S., you also can call in questions during the virtual company meeting to 1-800-992-3675. International employees can call to 425-706-8800. The on-demand content will continue to be available through July 15.

To: Partners 68+  
From: Kendi  
Subject Line: MS Confidential – Do Not Forward / Stock Option Transfer Program  
Date: October 13, 2003

As leaders, I want to let you know that tomorrow we will be sending emails to managers and employees to launch the Stock Option Transfer Program. **Until you receive the all employee email, please do not share this information.**

We believe the program addresses employee concerns about underwater options in a way that also demonstrates our commitment to our shareholders. While we anticipate that employee response will generally be positive, this is a fairly complex program.

Our goal is to enable employees to make a thoughtful and informed decision. To that end, employees will receive a variety of materials and resources to assist them in understanding both the opportunities and risks associated with the Program. This Program, and all related communications are part of our regulatory filing and are governed by a set of rules established by the U.S. Securities and Exchange Commission. As a result, the information we are providing is more complex than we typically provide.

It's important that all employees understand the voluntary nature of this Program. Neither Microsoft nor the Board of Directors is making any recommendation about whether employees should participate. As leaders and managers, it's important that you do the same, and avoid influencing employees' participation in any way, such as by commenting on your own thoughts on participation or giving any advice about an employee's choice.

I also wanted to give you an update on the Program design specific to the payment schedule so that you are fully aware of how the provisions may affect you and the employees in your organizations. As part of the announcement in July, employees were informed that a portion of the proceeds from this Program would be paid up-front followed by subsequent payments. To motivate employees and for administrative reasons, we've updated the payment schedule so that employees with a total payment of US\$20,000 or less will receive full payment in December 2003.

Generally, employees up to and including Level 67 that have a total payment over US\$20,000 will receive the greater of US\$20,000 **or** one-third of their total payment in December 2003, with the remainder paid out in December 2005, provided they remain employed with Microsoft or one of its subsidiaries.

Generally, Partners will receive the greater of US\$20,000 **or** one-third of their total payment up front, with the remaining proceeds paid in equal installments in December 2005 and December 2006, subject to continued employment. It's important to the company and to shareholders that this program includes a long-term retention component for some of our most talented individuals. This 3-year payout schedule provides for a good transition to the new compensation program — especially the Shared Performance Stock Award component. Shares under the SPSA program will begin vesting as you receive the final payouts under this program.

There are several countries where these payments will be accelerated because of local tax considerations.

We have arranged for American Express Financial Advisors to provide telephone resources and financial education seminars on the Program. As part of these services, two seminars have been scheduled for Partners:

- Monday, October 20 from 6-7:30pm in Redwest E/Emerald Auditorium.
- Wednesday, October 22 from 12-1:30pm in Building 117/Chinook.

If you would like to attend please RSVP to [partners.seminars@aexp.com](mailto:partners.seminars@aexp.com) indicating which day you will be attending.

I appreciate your continued leadership through our recent compensation changes.

Ken

Eligible option holders are advised to read Microsoft's Notice of Stock Option Transfer Program and other Program documents when they become available. Option holders and other interested parties may also obtain, free of charge, copies of the Notice when it becomes available and other documents filed by Microsoft with the SEC at the SEC's Internet Website at [www.sec.gov](http://www.sec.gov). Each of these documents also may be obtained, free of charge, by contacting Microsoft Investor Relations by mail at One Microsoft Way, Redmond, WA 98052, USA; by email at [msft@microsoft.com](mailto:msft@microsoft.com), or by telephone at (800) 285-7772 or (425) 706-4400.

To: All Employees  
From: kendi  
Subject Line: Stock Option Transfer Program Announcement  
Date: October 15, 2003

This email is to let you know we are launching Microsoft's Stock Option Transfer Program, which is designed to enable employees to realize value for underwater options with a grant price of \$33 and above. As we said when we announced the transition from stock options to Stock Awards in July, we've been working to address employee issues relating to underwater options. We believe we have come up with an innovative solution that addresses those issues and balances the company's compensation goals and our shareholders' interests.

Even if you are not eligible for the Program because you hold options closer to current market price, you may be hearing a lot about the Program and I want all employees to understand the elements of this Program and its intent. All employees can access [resources](#) for more detailed information and a Program overview.

*Eligible* employees will receive a follow up email from me shortly letting them know how they can access resources to help them make an informed decision about whether to participate, and details for signing up, if they so choose. In addition to those employees who do not have stock options with a grant price of \$33 or above, some employees are not eligible due to the terms of the stock options they hold or local country regulations.

If you believe you're eligible for this Program but do not receive my subsequent email with the subject line of *Action: Your Stock Option Transfer Opportunity* within the next 24 hours, email the *compchg* alias.

Ken

Eligible option holders are advised to read Microsoft's Notice of Stock Option Transfer Program and other Program documents when they become available. Option holders and other interested parties may also obtain, free of charge, copies of the Notice when it becomes available and other documents filed by Microsoft with the SEC at the SEC's Internet Website at [www.sec.gov](http://www.sec.gov). Each of these documents also may be obtained, free of charge, by contacting Microsoft Investor Relations by mail at One Microsoft Way, Redmond, WA 98052, USA; by email at [msft@microsoft.com](mailto:msft@microsoft.com), or by telephone at (800) 285-7772 or (425) 706-4400.



To: All Eligible Employees  
 From: Kendi  
 Subject Line: Action: Your Stock Option Transfer Opportunity  
 Date: October 15, 2003

I'm sending you this email because you are eligible to participate in Microsoft's one-time Stock Option Transfer Program.

Over the next four weeks you will need to make an important personal decision about whether to participate in the Program. Given the unique nature of this Program, I want to make sure you are aware of the online [resources](#) listed below. The information contained in these resources is intended to help you understand the Program and assist you in making a well-informed decision. I encourage you to set aside some time before the November 12 Election Deadline to review these resources.

Unless you affirmatively elect to participate using one of the available methods for electing to participate, you will retain your current stock option grants under their original terms and conditions.

#### Stock Option Transfer Program Resources

- **The Notice** – provides disclosure as required by the rules of the United States Securities and Exchange Commission.
- **Understanding the Stock Option Transfer Program** – provides an overview of the Program and the principles that shaped the Program.
- **Factors to Consider** – discusses some of the key factors you may want to consider in making your decision.
- **Personalized Online Election Tool** – enables you to view your Eligible Options, model your Total Payment, and guides you through the election process, should you choose to participate.
- **Defined Terms** – definitions from the Notice that have been extracted for your convenience.
- **Mellon Financial Services**, the information agent for the Program, will provide phone support to answer questions about the Program.
- **Compchg alias** – you may email this alias with questions about eligibility and technical support for our online resources.
- For those of you who would like additional support, **American Express Financial Advisors will be available** to provide personal assistance in helping you think through your decision.

Keep in mind that while American Express can assist with questions and help you weigh the risks and benefits of participation, they will not be making specific recommendations about whether you should participate.

While we are excited to be offering the Stock Option Transfer Program, it's important that you understand that this Program is completely voluntary. Neither Microsoft nor its Board of Directors makes any recommendation about whether you should participate. We understand that each person's financial situation is unique, and our goal is to provide you with the resources to help you make a decision that's right for you.

Please take the time to review the materials available so that you can make an informed decision.

Ken

Eligible option holders may obtain a written copy of the Notice and the other Program documents by contacting Microsoft Employee Stock Services at 425.706.8853.

635,000,000 Shares

## MICROSOFT CORPORATION

Common Stock par value \$0.00000625 per share

REGISTRATION AGREEMENT

October 9, 2003

J.P. MORGAN SECURITIES INC.  
277 Park Avenue  
New York, NY 10172

JPMORGAN CHASE BANK  
C/O J.P. MORGAN SECURITIES INC.  
277 Park Avenue  
New York, NY 10172

Dear Sirs and Mesdames:

1. *Introductory.* Microsoft Corporation (the “**Company**”) and JPMorgan Chase Bank, acting through J.P. Morgan Securities Inc. (together with JPMorgan Chase Bank, the “**JPMorgan Parties**”), as agent, have entered into a Program Agreement (the “**Program Agreement**”) dated October 9, 2003, relating to the transfer to JPMorgan Chase Bank or one of its affiliates of up to 635,000,000 employee stock options to purchase shares of Common Stock, par value \$0.00000625 per share (the “**Common Stock**”) of the Company. In connection therewith, J.P. Morgan Securities Inc. may from time to time execute sales (the “**Sales**”) of up to 635,000,000 shares of Common Stock (the “**Securities**”). Certain capitalized terms are defined in Section 13. In connection with the Program Agreement and the Sales, the Company and the JPMorgan Parties agree with each other as follows:

2. *Registration Statement and Prospectus.* The Company has prepared and filed with the Commission in accordance with the Act, a registration statement on Form S-3 (File Number 333-108843), including a prospectus, relating to the Securities. The Company may also file with the Commission pursuant to Rule 424 under the Act a prospectus supplement (the “**Prospectus Supplement**”) specifically relating to the Sales. The registration statement as amended to the date of this Agreement is hereinafter referred to as the “**Registration Statement**”. The related prospectus covering the Securities, as supplemented by any such Prospectus Supplement, is hereinafter referred to as the “**Prospectus**”. Any reference in this Agreement to the Registration Statement or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act which were filed under the Exchange Act on or before the date of this Agreement or the date of the Prospectus, as the case may be; and any reference to “amend”, “amendment” or “supplement” with respect to the Registration Statement or the Prospectus shall be deemed to refer to and include the filing of any documents under the Exchange Act after the date of this Agreement, or the Prospectus, as the case may be, which are deemed to be incorporated by reference therein. The parties acknowledge that J.P. Morgan Securities Inc. proposes to offer the Securities for sale to the public as set forth in the Prospectus.

3. *Representations and Warranties of the Company.* The Company represents and warrants to, and agrees with, the JPMorgan Parties as of the Initial Representation Date and as of each other date during the Prospectus Delivery Period, other than any date on which the Company has previously given notice to the JPMorgan Parties pursuant to Section 5(d)(v) or (vi) or Section 5(e) and the Company has not yet given notice to the JPMorgan Parties that the event or condition described in such previous notice has been remedied, that:

(a) *Registration Statement and Prospectus.* The Registration Statement has been declared effective by the Commission under the Act; no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been instituted or, to the knowledge of the Company, threatened by the Commission; and the Registration Statement (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) complied, or will comply, as the case may be, in all material respects with the Act and did not and will not, as of the effective date of the Registration Statement and any amendment thereto, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and the Prospectus, as amended or supplemented, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the foregoing representations and warranties shall not apply to statements or omissions in the Registration Statement or the Prospectus made in reliance upon and in conformity with information relating to the JPMorgan Parties furnished to the Company in writing by J.P. Morgan Securities Inc. expressly for use therein.

(b) *Incorporated Documents.* The documents incorporated by reference or deemed to be incorporated by reference in the Prospectus when they were filed with the Commission, conformed in all material respects to the requirements of the Exchange Act; and any further documents so filed and incorporated by reference in the Prospectus, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or Exchange Act, as applicable.

(c) *Financial Statements.* The financial statements and the related notes thereto included or incorporated by reference in the Registration Statement and the Prospectus comply in all material respects with the applicable requirements of the Act and the Exchange Act, as applicable, and present fairly the financial position of the Company and its subsidiaries as of the dates indicated and the results of their operations and the changes in their cash flows for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods covered thereby, and the supporting schedules included or incorporated by reference in the Registration Statement present fairly the information required to be stated therein; and the other financial information included or incorporated by reference in the Registration Statement and the Prospectus has been derived from the accounting records of the Company and its subsidiaries and presents fairly the information shown thereby.

(d) *No Material Adverse Change.* Since the date of the most recent financial statements of the Company included or incorporated by reference in the Registration Statement and the Prospectus, except in each case as set forth or contemplated in the Registration Statement and the Prospectus, (i) there has not been any material adverse change in, or affecting the business, financial position, stockholders' equity or results of operations of the Company and its subsidiaries taken as a whole (a "**Material Adverse Change**"), or any development involving a prospective Material Adverse Change; (ii) there

has not been any change in the capital stock or consolidated long-term debt of the Company, or any dividend or distribution of any kind declared, set aside for payment, paid or made by the Company on any class of capital stock that would reasonably be expected to have a Material Adverse Effect, (iii) neither the Company nor any of its subsidiaries has entered into any transaction or agreement that is material to the Company and its subsidiaries taken as a whole or incurred any liability or obligation, direct or contingent, outside the ordinary course of its business that is material to the Company and its subsidiaries taken as a whole, and (iv) neither the Company nor any of its subsidiaries has sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or arbitrator or governmental or regulatory authority, that would reasonably be expected to have a Material Adverse Effect.

(e) *Organization and Good Standing.* The Company and each subsidiary of the Company that is a Significant Subsidiary have been duly organized and are validly existing and, to the extent such concept is recognized in the relevant jurisdiction, in good standing under the laws of their respective jurisdictions of organization, are duly qualified to do business and are in good standing in each jurisdiction in which their respective ownership or lease of property or the conduct of its businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged, except where the failure to be so qualified or have such power or authority would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, financial position, stockholders' equity or results of operations of the Company and its subsidiaries taken as a whole (a "**Material Adverse Effect**"). Schedule A to this Agreement sets forth the Significant Subsidiaries of the Company and the percentage ownership interest of the Company.

(f) *Capitalization.* All the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and are not subject to any pre-emptive or similar rights; except as otherwise described in the Registration Statement or the Prospectus or as contemplated by this Agreement, the Program Agreement or the Confirmation, there are no outstanding rights (including, without limitation, pre-emptive rights), warrants or options (to which the Company or a subsidiary is a party) to acquire, or instruments convertible into or exchangeable for, any shares of capital stock or other equity interest in the Company, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any capital stock of the Company, any such convertible or exchangeable securities or any such rights, warrants or options (collectively "Options") other than Options that are immaterial and not required to be disclosed in the reports filed by the Company under the Exchange Act; the capital stock of the Company conforms in all material respects to the description thereof contained in the Registration Statement and the Prospectus; and all the outstanding shares of capital stock or other equity interests of each Significant Subsidiary of the Company which are owned, directly or indirectly, by the Company have been duly and validly authorized and issued, are fully paid and non-assessable (except as otherwise described in the Prospectus) and are owned directly or indirectly by the Company, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party.

(g) *Due Authorization.* The Company has full right, power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(h) *This Agreement*. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding agreement of the Company, except as may be limited by applicable bankruptcy, insolvency or similar laws relating to or affecting the rights and remedies of creditors or by equitable principles, and except as rights of indemnity or contribution may be limited by applicable law.

(i) *No Violation or Default*. Neither the Company nor any of its Significant Subsidiaries is: (i) in violation of its charter or by-laws or similar organizational documents; (ii) in default, and no event has occurred that, with notice or lapse of time or both, would constitute a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its Significant Subsidiaries is a party or by which the Company or any of its Significant Subsidiaries is bound or to which any of the property or assets of the Company or any of its Significant Subsidiaries is subject; or (iii) in violation of any law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority; except in the case of clauses (ii) and (iii) for such defaults or violations that would not reasonably be expected to have a Material Adverse Effect.

(j) *No Conflicts*. The execution and delivery of this Agreement by the Company, the performance by the Company of its obligations under this Agreement, and the Sales will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, except in the case of this clause (i) for such breaches, violations, defaults, liens, charges or encumbrances which would not reasonably be expected to have a Material Adverse Effect and which would not result in any liability to the JPMorgan Parties, (ii) result in any violation of the provisions of the charter or by-laws or similar organizational documents of the Company or any of its Significant Subsidiaries, or (iii) result in the violation of any law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority, except for such violations which would not reasonably be expected to have a Material Adverse Effect.

(k) *No Consents Required*. No consent, approval, authorization, order, registration or qualification of or with any court or arbitrator or governmental or regulatory authority is required for the execution, delivery and performance by the Company of its obligations under this Agreement or the Sales, except for the registration of the Securities and/or the shares of Common Stock to be issued upon exercise of the JPMorgan Options (the "Option Shares") under the Act and such consents, approvals, authorizations, orders and registrations or qualifications as may be required under applicable state and foreign securities laws.

(l) *Legal Proceedings*. Except as described in the Prospectus, there are no legal, governmental or regulatory investigations, actions, suits or proceedings pending to which the Company or any of its subsidiaries is or may be a party or to which any property of the Company or any of its subsidiaries is or may be the subject that, individually or in the aggregate, if determined adversely to the Company or any of its subsidiaries, would reasonably be expected to have a Material Adverse Effect or materially and adversely affect the ability of the Company to perform its obligations under this Agreement; and to the best knowledge of the Company, no such investigations, actions, suits or proceedings are threatened or, to the best knowledge of the Company, contemplated by any governmental or regulatory authority or threatened by others.

(m) *Independent Accountants.* Deloitte & Touche LLP, who have certified certain financial statements of the Company and its subsidiaries, are independent public accountants with respect to the Company and its subsidiaries as required by the Act.

(n) *Investment Company Act.* The Company is not and, after giving effect to the transactions contemplated by the Transaction Agreements, will not be an “investment company” or an entity “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(o) *Accounting Controls.* To the extent required by applicable law and Commission rules and regulations, the Company and its subsidiaries maintain systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(p) *No Broker’s Fees.* Neither the Company nor any of its subsidiaries is a party to any contract, agreement or understanding with any person (other than with a J.P. Morgan Party) that would give rise to a valid claim against the Company or any of its subsidiaries or any JPMorgan Party for a brokerage commission, finder’s fee or like payment in connection with the Sales.

(q) *No Registration Rights.* No person has the right to require the Company or any of its subsidiaries to register any securities for sale under the Act by reason of the filing of the Registration Statement with the Commission or the Sales.

(r) *No Stabilization.* Except as otherwise disclosed in the Registration Statement or Prospectus or as contemplated by this Agreement and the Program Agreement or as permitted by Regulation M under the Exchange Act in light of the transactions described in the Prospectus or otherwise not in violation of the Exchange Act, the Company has not taken, directly or indirectly, any action designed to or that would reasonably be expected to cause or result in any stabilization or manipulation of the price of the Common Stock.

4. *Representations, Warranties and Agreements of the JPMorgan Parties.* The JP Morgan Parties represents and warrants to, and agrees with, the Company Parties as of the date hereof and as of each other date during the Prospectus Delivery Period, that:

(a) *Prospectus Delivery Period.* J.P.Morgan Securities Inc. shall (1) provide the Company, orally on a weekly basis, a reasonable estimate of (A) the number of shares of Common Stock it has sold as part of the Sales contemplated under this Agreement and (B) the number of shares of Common Stock it has sold to establish the initial “delta” hedge of JPMorgan Chase Bank and (2) promptly after the Prospectus Delivery Period has ended notify the Company that the Prospectus Delivery Period has ended.

(b) *No Stabilization.* Except as otherwise disclosed in the Registration Statement or Prospectus or as contemplated by this Agreement and the Program Agreement or as permitted by Regulation M under the Exchange Act in light of the transactions described in the Prospectus or otherwise not in violation of the Exchange Act, the JPMorgan Parties have not taken, and will not take, directly or indirectly, any action designed to or that would reasonably be expected to cause or result in any stabilization or manipulation of the price of the Common Stock.

5. *Certain Agreements of the Company.* The Company agrees with the JPMorgan Parties that:

(a) *Filing of Prospectus.* The Company will file the Prospectus with the Commission within the time periods specified by Rule 424(b) under the Act and file within the applicable time periods specified by the rules under the Exchange Act all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and through the Prospectus Delivery Period; and the Company will furnish copies of the Prospectus to J.P. Morgan Securities Inc. in New York City prior to 10:00 A.M., New York City time, on the Business Day next succeeding the date of such Prospectus in such quantities as it may reasonably request.

(b) *Delivery of Copies.* The Company will deliver to J.P. Morgan Securities Inc., without charge, (i) a copy of the Registration Statement as originally filed and each amendment thereto, in each case including all exhibits and consents filed therewith; (ii) during the Prospectus Delivery Period, as many copies of the Prospectus (including all amendments and supplements thereto as J.P. Morgan Securities Inc. may reasonably request).

(c) *Amendments or Supplements.* Before filing any amendment or supplement to the Registration Statement or the Prospectus, whether before or after the time that the Registration Statement becomes effective, the Company will furnish to the JPMorgan Parties and counsel for the JPMorgan Parties a copy of the proposed amendment or supplement for review a reasonable time prior to filing any such amendment or supplement.

(d) *Notice to the JPMorgan Parties.* The Company will advise the JPMorgan Parties promptly, and confirm such advice in writing (provided that in the case of clauses (i)-(iii) below, the Company need only confirm such advice in writing if so requested by the JPMorgan Parties): (i) when the Registration Statement has become effective; (ii) when any amendment to the Registration Statement has been filed or becomes effective; (iii) when any supplement to the Prospectus or any amendment to the Prospectus has been filed; (iv) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or the receipt of any comments from the Commission relating to the Registration Statement or any other request by the Commission for any additional information; (v) of the issuance by the Commission of any order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Prospectus or the initiation or threatening of any proceeding for that purpose; and (vi) of the receipt by the Company of any notice with respect to any suspension of the qualification of the Securities for offer and sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and the Company will use its best efforts to prevent the issuance of any such order suspending the effectiveness of the Registration Statement, preventing or suspending the use of any Prospectus or suspending any such qualification of the Securities and, if any such order is issued, will obtain as soon as possible the withdrawal thereof.

(e) *Ongoing Compliance of the Prospectus.* If during the Prospectus Delivery Period (i) any event shall occur or condition shall exist as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Prospectus to comply with law, the Company will promptly notify the JPMorgan Parties thereof and forthwith prepare and, subject to paragraph (c) above, as promptly as practicable (but in no event later than two Business Days during the Averaging Period) following the date such event occurs or the first date such condition exists, as applicable, file with the Commission and furnish to the JPMorgan Parties and to such dealers as the JPMorgan Parties may designate, such amendments or supplements to the Prospectus as may be necessary so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus will comply with law.

(f) *Blue Sky Compliance.* The Company will qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as J.P. Morgan Securities Inc. shall reasonably request and will continue such qualifications in effect so long as required for distribution of the Securities; *provided* that the Company shall not be required to (i) qualify as a foreign corporation or other entity or as a dealer in securities in any such jurisdiction where it would not otherwise be required to so qualify, (ii) file any general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any such jurisdiction if it is not otherwise so subject.

(g) *Earning Statement.* The Company will make generally available to its security holders and the JPMorgan Parties as soon as practicable an earning statement that satisfies the provisions of Section 11(a) of the Act and Rule 158 of the Commission promulgated thereunder covering a period of at least twelve months beginning with the first fiscal quarter of the Company occurring after the “effective date” (as defined in Rule 158) of the Registration Statement.

(h) *No Stabilization.* The Company will not take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Common Stock.

(i) *Expenses.* Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company will pay or cause to be paid all costs and expenses incident to the performance of its obligations hereunder, including without limitation: (i) the costs incident to the preparation and filing under the Act of the Registration Statement, the Prospectus (including all exhibits, amendments and supplements thereto) and the distribution thereof to the parties hereto for their internal use and their respective advisors; (ii) the fees and expenses of the Company’s counsel and independent accountants; and (iii) the fees and expenses incurred in connection with the registration or qualification and determination of eligibility for investment of the Securities under the laws of such jurisdictions as the JPMorgan Parties may designate and the preparation of a Blue Sky Memorandum (including the related reasonable fees and expenses of counsel for the JPMorgan Parties (not to exceed \$5,000).

(j) *Double Print Fees.* (i) On the Business Day immediately prior to the Closing Date or, if the Program Agreement is terminated prior to closing of the Program Agreement, on the date of such termination, JPMorgan Chase Bank shall determine, in good faith, in consultation with the Company, the Double Print Amount and notify the Company of such amount in the manner set forth in Section 9. JPMorgan Chase Bank



shall, not later than the third Business Day following a receipt of a written request by the Company, provide the Company with a written explanation of the basis for any calculation made hereunder.

(ii) On the Closing Date or, if the Program Agreement is terminated prior to the Closing, the second Business Day immediately following the date of such termination, the Company shall pay the Double Print Amount to the JPMorgan Chase Bank by wire transfer of immediately available funds to an account designated by the JPMorgan Chase Bank.

6. *Additional Covenants of the Company.* The Company agrees that:

(a) As promptly as practicable, but in no event later than the Business Day following the date the Company issues its earnings release for the three months period ended September 30, 2003 (the “**Initial Representation Date**”) and on the Business Day following any other date the Company issues its earnings release during the Prospectus Delivery Period, the Company shall file a Form 8-K under the Exchange Act relating to the results of operations announced in such earnings release. On each of the Initial Representation Date and any other date on which the Registration Statement or Prospectus is amended or supplemented or deemed to be amended or supplemented (each, an “**Amendment Date**”), the Company agrees to cause Deloitte & Touche LLP to deliver to the JPMorgan Parties a letter, dated such date, in form and substance reasonably satisfactory to the JPMorgan Parties, containing statements and information of the type customarily included in accountants “comfort letters” to underwriters with respect to the financial statements and certain financial information contained or incorporated by reference in the Registration Statement and the Prospectus; *provided*, that the letter delivered on each such date shall use a “cut-off” date no more than three Business Days prior to such date; *provided further* that in the case of the Initial Representation Date and any Amendment Date resulting from the issuance of an earnings release, such comfort letter shall be delivered no later than the second Business Day following the date of the release. Notwithstanding the foregoing, no such letter need be delivered on any Amendment Date unless on such Amendment Date the Registration Statement or Prospectus is amended or supplemented, or deemed amended or supplemented, to include new or revised financial information.

(b) On the Initial Representation Date, the Company shall cause to be delivered to the JPMorgan Parties an opinion of Preston Gates & Ellis LLP, counsel to the Company, in form and substance reasonably satisfactory to the JPMorgan Parties, to the effect set forth in Annex A; and on each Amendment Date, the Company shall cause to be delivered to the JPMorgan Parties an opinion of Preston Gates & Ellis LLP, counsel to the Company, dated the date of such Amendment Date, in form and substance reasonably satisfactory to the JPMorgan Parties, to the effect set forth in Annex B.

(c) On the Initial Representation Date, the Company shall cause to be delivered to the JPMorgan Parties an opinion of the Company’s Deputy General Counsel, Finance and Operations, in form and substance reasonably satisfactory to the JPMorgan Parties, to the effect set forth in Annex C; and on each Amendment Date the Company shall cause to be delivered to the JPMorgan Parties an opinion of the Company’s Deputy General Counsel, Finance and Operations, dated the date of such Amendment Date, in form and substance reasonably satisfactory to the JPMorgan Parties, to the effect set forth in Annex D.

(d) Upon reasonable request by any JPMorgan Party on any Trading Day during the Averaging Period, Preston Gates & Ellis LLP and the Company’s Deputy General Counsel, Finance and Operations, shall provide a bring-down letter in the form of Annex E as promptly as reasonably practicable.

(e) On the Initial Representation Date and each Amendment Date the Company shall furnish the JPMorgan Parties a certificate, dated such date, of any two of the following officers of the Company: the Chief Financial Officer, the Vice President and Corporate Controller or the Vice President and Treasurer, in which such officers shall state, to the best of their knowledge after reasonable investigation, that: the representations and warranties of the Company in this Agreement are true and correct as of and as if made on such date; the Company has complied in all material respects with all agreements on its part to be performed hereunder at or prior to such date; no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission; and, subsequent to the date of the most recent financial statements in the Prospectus, there has been no Material Adverse Change, or any development involving a prospective Material Adverse Change.

(f) The Company agrees to cause the chief financial officer or chief accounting officer, or, with the agreement of the JPMorgan Parties, his designee and either the general counsel or a senior counsel of the Company (and if reasonably requested by the JPMorgan Parties, outside counsel to the Company) to participate in bi-weekly telephonic due diligence sessions with representatives of the JPMorgan Parties and their counsel during the Prospectus Delivery Period. Such telephonic due diligence sessions shall be arranged by the JPMorgan Parties at such times, after market close in New York City, that are mutually convenient to the parties to this Agreement.

(g) The Company shall furnish to the JPMorgan Parties on and as of the Initial Representation Date satisfactory evidence of the corporate existence and, to the extent such concept is recognized in the relevant jurisdiction, good standing of the Company and its Significant Subsidiaries in their respective jurisdictions of organization, in each case in writing or any standard form of telecommunication from the appropriate governmental authorities of such jurisdictions.

(h) On or prior to the Initial Representation Date and each Amendment Date, the Company shall have furnished to the JPMorgan Parties such further certificates and documents as the JPMorgan Parties may reasonably request.

All opinions, letters, certificates and evidence mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the JPMorgan Parties.

#### *7. Indemnification and Contribution.*

(a) *Indemnification of the JPMorgan Parties.* The Company agrees to indemnify and hold harmless each JPMorgan Party, its affiliates, directors and officers and each person, if any, who controls such JPMorgan Party within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, legal fees and other expenses incurred in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred), joint or several, that arise out of, or are based upon, any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus or any amendment or supplement thereto, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the

circumstances under which they were made, not misleading, except insofar as such losses, claims, damages or liabilities arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission (1) contained in a Prospectus that was sent or given by or on behalf of such JPMorgan Party in connection with a sale occurring subsequent to the date on which the JPMorgan Parties have received written notice pursuant to Section 5(d)(v) or Section 5(e) and prior to the JPMorgan Parties having received notice that the event or condition described in such previous notice has been remedied or (2) made in reliance upon and in conformity with any information relating to any JPMorgan Party furnished to the Company in writing by such JPMorgan Party expressly for use therein, it being understood and agreed that the only such information furnished by any JPMorgan Party consists of the information described as such in subsection (b) below.

(b) *Indemnification of the Company.* Each JPMorgan Party agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the same extent as the indemnity set forth in paragraph (a) above, but only with respect to any losses, claims, damages or liabilities that arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to such JPMorgan Party furnished to the Company in writing by such JPMorgan Party expressly for use in the Registration Statement and the Prospectus or any amendment or supplement thereto.

(c) *Notice and Procedures.* If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any person in respect of which indemnification may be sought pursuant to either paragraph (a) or (b) above, such person (the “**Indemnified Person**”) shall promptly notify the person against whom such indemnification may be sought (the “**Indemnifying Person**”) in writing; *provided* that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have under this Section 7 except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and *provided*, further, that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have to an Indemnified Person otherwise than under this Section 7. If any such proceeding shall be brought or asserted against an Indemnified Person and it shall have notified the Indemnifying Person thereof, the Indemnifying Person shall retain counsel reasonably satisfactory to the Indemnified Person to represent the Indemnified Person and any others entitled to indemnification pursuant to this Section 7 that the Indemnifying Person may designate in such proceeding and shall pay the fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the Indemnifying Person and the Indemnified Person shall have mutually agreed to the contrary; (ii) the Indemnifying Person has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Person; (iii) the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Indemnifying Person; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Indemnifying Person and the Indemnified Person and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood and agreed that the Indemnifying Person shall not, in connection with any proceeding or related proceeding in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Persons, and that all such fees and expenses shall be paid or

reimbursed as they are incurred. Any such separate firm for any JPMorgan Party, its affiliates, directors and officers and any control persons of such JPMorgan Party shall be designated in writing by J.P. Morgan Securities Inc. and any such separate firm for the Company, its directors, its officers who signed the Registration Statement and any control persons of the Company shall be designated in writing by the Company. The Indemnifying Person shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Person agrees to indemnify each Indemnified Person from and against any loss or liability by reason of such settlement or judgment. No Indemnifying Person shall, without the written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnification could have been sought hereunder by such Indemnified Person, unless such settlement (x) includes an unconditional release of such Indemnified Person, in form and substance reasonably satisfactory to such Indemnified Person, from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

(d) *Contribution.* If the indemnification provided for in paragraphs (a) and (b) above is unavailable to an Indemnified Person or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the JPMorgan Parties on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative fault of the Company on the one hand and the JPMorgan Parties on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the JPMorgan Party on the other shall be deemed to be in the same respective proportions as the Double Print Amount plus the Make-Up Amount to be received by J.P. Morgan Securities Inc. under the Program Agreement bears to the aggregate offering price of the Securities. The relative fault of the Company on the one hand and the JPMorgan Parties on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the JPMorgan Parties and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) *Limitation on Liability.* The Company and the JPMorgan Parties agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by prorata allocation (even if the JPMorgan Parties were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages and liabilities referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Person in connection with any such action or claim. Notwithstanding the provisions of this Section 7, in no event shall a JPMorgan Party be required to contribute any amount in excess of the amount by which the Double Print Amount plus the Make-Up Amount, if any, received by such JPMorgan Party exceeds the amount of any damages that such JPMorgan Party has otherwise been required to pay by reason of such untrue or alleged untrue statement or

omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The JPMorgan Parties' obligations to contribute pursuant to this Section 7 are several in proportion to their respective obligations hereunder and not joint.

(f) *Non-Exclusive Remedies.* The remedies provided for in this Section 7 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Person at law or in equity.

8. *Survival of Certain Representations and Obligations.* The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the JPMorgan Parties set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any JPMorgan Party the Company or any of their respective representatives, officers or directors or any controlling person.

9. *Notices.* All communications hereunder will be in writing and, if sent to the JPMorgan Parties, will be mailed, delivered or telegraphed and confirmed to or care of J.P. Morgan Securities Inc., 277 Park Avenue, New York, NY 10172, Attention: Equity Syndicate Desk, and to J.P. Morgan Securities Inc., 277 Park Avenue, New York, NY 10172, Attention: Equity Derivatives Group, Corporate Marketing, Attention: Steve L. Roti, with a copy to Davis Polk & Wardwell, 450 Lexington Ave, New York, NY 10017, Attention: Richard J. Sandler, or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399, Attention: Deputy General Counsel, Finance and Operations, with a copy to Preston Gates & Ellis LLP, 925 Fourth Avenue, Suite 2900, Seattle, Washington 98104, Attention: Richard B. Dodd; with a copy to Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399, Attention: Treasurer.

10. *Successors.* This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 7, and no other person will have any right or obligation hereunder.

11. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

12. *Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.* This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, and all rights and remedies shall be governed by said laws, without regard to conflict of laws principles. Each of the parties hereto agree (i) that this Agreement involves at least \$100,000 and (ii) that this Agreement has been entered into by the parties hereto in express reliance upon 6 Del.C. §2708. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the Transactions shall be brought in a federal court located in the State of Delaware or a Delaware state court. Each of the parties hereby consents to exclusive personal jurisdiction in any such action, suit or proceeding brought in any such state or federal court (and of the appropriate appellate courts therefrom) and irrevocably waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient form. Each party agrees that service of process on such party as provided in Section 9 shall be deemed effective service of process on such party. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS.

13. *Definitions.* The following terms have the following meanings:

“**Act**” means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

“**Agreement**” means this Registration Agreement.

“**Amendment Date**” has the meaning specified in Section 6(a) of this Agreement.

“**Averaging Period**” has the meaning set forth in the Program Agreement.

“**Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business in U.S. Dollars in New York City.

“**Closing**” has the meaning set forth in the Program Agreement.

“**Closing Date**” has the meaning set forth in the means the Program Agreement.

“**Commission**” means the Securities and Exchange Commission.

“**Common Stock**” has the meaning specified in Section 1 of this Agreement.

“**Company**” has the meaning specified in Section 1 of this Agreement.

“**Confirmation**” means the confirmation to be executed by the parties pursuant to the Program Agreement setting forth the terms and conditions of Participating Options as amended and restated as of the Closing of the Stock Option Transfer Program.

“**Double Print Amount**” means an amount in cash equal to either (i) if the Stock Option Transfer Program is terminated prior to the end of the Election Period, the product of (1) \$0.02 and (2) the actual number of Securities sold pursuant to the Registration Statement; or (ii) if the Stock Option Transfer Program is terminated after the end of the Election Period, the product of (1) \$0.02 and (2) the lesser of (A) the actual number of Securities sold pursuant to the Registration Statement and (B) the aggregate number of Participating Options, or (iii) in any other event, the product of (1) \$0.02 and (2) the aggregate number of Participating Options;

“**Election Period**” means the period beginning with the commencement of the Stock Option Transfer Program and ending at the Expiration Time.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

“**Indemnified Person**” has the meaning specified in Section 7(c) of this Agreement.

“**Indemnifying Person**” has the meaning specified in Section 7(c) of this Agreement.

“**Initial Representation Date**” has the meaning specified in Section 6(a) of this Agreement.

“**JPMorgan Options**” means the Participating Options, as amended and restated pursuant to the Program Agreement and evidenced by the Confirmation.

“**JPMorgan Parties**” has the meaning specified in Section 1 of this Agreement.

**“Make-Up Amount”** has the meaning set forth in the Program Agreement.

**“Material Adverse Change”** has the meaning specified in Section 3(d) of this Agreement.

**“Material Adverse Effect”** has the meaning specified in Section 3(e) of this Agreement.

**“Participating Options”** has the meaning set forth in the Program Agreement.

**“Program Agreement”** has the meaning specified in Section 1 of this Agreement.

**“Prospectus”** has the meaning specified in Section 2 of this Agreement.

**“Prospectus Delivery Period”** means the period of time beginning at 9:00 a.m., New York City time, on October 27, 2003 and ending at the date on which J.P. Morgan Securities Inc. has delivered a Prospectus in connection with the sale of shares of Common Stock equal to the total number of Participating Options.

**“Prospectus Supplement”** has the meaning specified in Section 2 of this Agreement.

**“Registration Statement”** has the meaning specified in Section 2 of this Agreement.

**“Sales”** has the meaning specified in Section 1 of this Agreement.

**“Significant Subsidiary”** means a “significant subsidiary” as defined in Section 1-02 of Regulation S-X.

**“Stock Option Transfer Program”** has the meaning set forth in the Program Agreement.

**“Trading Day”** has the meaning set forth in the Program Agreement.

If the foregoing is in accordance with the JPMorgan Parties' understanding of our agreement, kindly sign and return to the Company one of the counterparts hereof, whereupon it will become a binding agreement among the Company and the JPMorgan Parties in accordance with its terms.

Very truly yours,

MICROSOFT CORPORATION

By: \_\_\_\_\_ /s/ BRENT CALLINICOS

Name: Brent Callinicos

Title: Corporate Vice President & Treasurer



The foregoing Registration Agreement is hereby confirmed and accepted as of the date first above written.

JPMORGAN SECURITIES INC.

By: \_\_\_\_\_ /s/ STEPHEN L. ROTI

Name: Stephen L. Roti  
Title: Vice President

JP MORGAN CHASE BANK,  
By: J.P. Morgan Securities Inc., as Agent

By: \_\_\_\_\_ /s/ STEPHEN L. ROTI

Name: Stephen L. Roti  
Title: Vice President

**FORM OF THE OPINION OF OUTSIDE COUNSEL TO THE COMPANY**

The opinion of outside counsel to the Company to be delivered pursuant to Section 6(b) of the Registration Agreement shall be to the effect that:

(1) The Registration Statement was declared effective by the Commission under the Act as of the date and time specified in such opinion; no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been instituted or, to the knowledge of such counsel, threatened by the Commission.

(2) The Registration Statement and Prospectus (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act.

(3) Each document incorporated by reference in the Prospectus or any further amendment or supplement thereto made by the Company prior to the date hereof (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), at the time they were filed with the Commission, complied as to form in all material respects to the requirements of the Exchange Act.

(4) The Company has been duly organized and is validly existing under the laws of the State of Washington and has all power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged, except where the failure to have such power or authority would not, individually or in the aggregate, have a Material Adverse Effect.

(5) The Common Stock conforms in all material respects to the description thereof contained in the Registration Statement and the Prospectus.

(6) The Company has full right, power and authority to execute and deliver the Agreement and to perform its obligations thereunder; and all action required to be taken for the due and proper authorization, execution and delivery by it of the Agreement and the consummation by it of the transactions contemplated thereby has been duly and validly taken.

(7) The Agreement has been duly authorized, executed and delivered by the Company.

(8) The execution, delivery and performance by the Company of its obligations under this Agreement and the Sales will not (i) result in any violation of the provisions of the charter or by-laws of the Company or (ii) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument which is an exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 2003.

(9) No consent, approval, authorization, order, registration or qualification of or with any court or arbitrator or governmental or regulatory authority is required for the execution, delivery and performance by the Company of its obligations under the Agreement or the Sales, except for the registration of the Securities and/or the Option Shares under the Act and such consents, approvals, authorizations, orders and registrations or qualifications as may be required under applicable state securities laws.

(10) The statements in the Prospectus under the headings, “Description of Capital Stock” in the Prospectus and in the Registration Statement in Item 15, to the extent that they constitute summaries of the terms of capital stock, matters of law or legal conclusions, fairly summarize the matters described therein in all material respects.

(11) The Company is not and, after giving effect to the transactions contemplated by this Agreement, will not be an “investment company” or an entity “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

Such counsel shall also state that they have participated in conferences with representatives of the Company, with representatives of its independent accountants and counsel and with representatives of the JPMorgan Parties and their counsel at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although such counsel assume no responsibility for the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto (except as expressly provided in paragraph 10 above), nothing has come to the attention of such counsel to cause such counsel to believe that the Registration Statement, at the time of its effective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any amendment or supplement thereto as of its date and the Initial Representation Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial information or statistical data contained therein, as to which such counsel need express no belief).

The opinion of counsel described above shall be rendered to the JPMorgan Parties at the request of the Company and shall so state therein.

**FORM OF OPINION OF OUTSIDE COUNSEL TO THE COMPANY**

The opinion of Preston Gates & Ellis LLP, counsel to the Company (capitalized terms not otherwise defined herein shall have the meanings provided in the Registration Agreement, to which this is an Exhibit), to be delivered pursuant to Section 6(b) of the Registration Agreement shall be to the effect that:

(1) Each document incorporated by reference in the Prospectus (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), at the time they were filed with the Commission, complied as to form in all material respects to the requirements of the Exchange Act.

(2) [If applicable] The statements in the Prospectus incorporated by reference from the Company's Current Report on Form 8-K, to the extent that they constitute summaries of the terms of stock, matters of law or regulation or legal conclusions, fairly summarize the matters described therein in all material respects.

Such counsel shall also state that they have participated in conferences with representatives of the Company, with representatives of its independent accountants and counsel and with representatives of the JPMorgan Parties and their counsel at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although such counsel assume no responsibility for the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto [(except as expressly provided in paragraph 2 above) - if applicable], nothing has come to the attention of such counsel to cause such counsel to believe that the Registration Statement, at the time of its effective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any amendment or supplement thereto as of its date and such Amendment Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial information or statistical data contained therein, as to which such counsel need express no belief).

The opinion of Preston Gates & Ellis LLP described above shall be rendered to the JPMorgan Parties at the request of the Company and shall so state therein.

**FORM OPINION OF THE COMPANY'S IN-HOUSE COUNSEL**

The opinion of the Company's Deputy General Counsel, Finance and Operations (capitalized terms not otherwise defined herein shall have the meanings provided in the Registration Agreement, to which this is an Exhibit), to be delivered pursuant to Section 6(c) of the Registration Agreement shall be to the effect that:

(1) The execution, delivery and performance by the Company of its obligations under this Agreement will not to the knowledge of such counsel, result in the violation of any law or statute or any judgment, order, rule or regulation (other than applicable federal or state securities laws or similar foreign laws) of any court or arbitrator or governmental or regulatory authority except for such violations that would not reasonably be expected to have a Material Adverse Effect.

(2) The statements in the Prospectus incorporated by reference from Item 3 of Part I of the Company's Annual Report on Form 10-K for the year ended June 30, 2003, to the extent that they constitute summaries of matters of law or regulation or legal conclusions, or description of legal proceedings fairly summarize the matters described therein in all material respects.

Such counsel shall also state that they have participated in conferences with representatives of the Company, with representatives of its independent accountants and counsel and with representatives of the JPMorgan Parties and their counsel at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although such counsel assume no responsibility for the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto (except as expressly provided in paragraph 2 above), nothing has come to the attention of such counsel to cause such counsel to believe that the Registration Statement, at the time of its effective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any amendment or supplement thereto as of its date and the Initial Representation Date contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial information or statistical data contained therein, as to which such counsel need express no belief).

The opinion of the Company's Deputy General Counsel, Finance and Operations described above shall be rendered to the JPMorgan Parties at the request of the Company and shall so state therein.

**FORM OPINION OF THE COMPANY'S IN-HOUSE COUNSEL**

The opinion of the Company's Deputy General Counsel, Finance and Operations (capitalized terms not otherwise defined herein shall have the meanings provided in the Registration Agreement, to which this is an Exhibit), to be delivered pursuant to Section 6(c) of the Registration Agreement shall be to the effect that:

(1) [If applicable] The statements in the Prospectus incorporated by reference from the Company's Current Report on Form 8-K, to the extent that they constitute summaries of the terms of stock, matters of law or regulation or legal conclusions, fairly summarize the matters described therein in all material respects.

Such counsel has participated in conferences with representatives of the Company, with representatives of its independent accountants and counsel and with representatives of the JPMorgan Parties and their counsel at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although such counsel assume no responsibility for the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto [(except as expressly provided in paragraph 1 above) – if applicable], nothing has come to the attention of such counsel to cause such counsel to believe that the Registration Statement, at the time of its effective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any amendment or supplement thereto as of its date and such Amendment Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial information or statistical data contained therein, as to which such counsel need express no belief).

The opinion of the Company's Deputy General Counsel, Finance and Operations described above shall be rendered to the JPMorgan Parties at the request of the Company and shall so state therein.

**FORM OF BRING DOWN LETTER OF [IN HOUSE COUNSEL] [OUTSIDE COUNSEL]  
TO THE COMPANY**

The bring down letter of [Preston Gates and Ellis LLP] [the Company's Deputy General Counsel, Finance and Operations] (capitalized terms not otherwise defined herein shall have the meanings provided in the Registration Agreement, to which this is an Exhibit), to be delivered pursuant to Section 6(e) of the Registration Agreement shall be to the effect that:

Such counsel shall state that such counsel has participated in conferences with representatives of the Company and with representatives of its independent accountants and counsel and with representatives of the JPMorgan Parties and their counsel at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although such counsel assume no responsibility for the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto, nothing has come to the attention of such counsel to cause such counsel to believe that the Registration Statement, at the time of its effective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any amendment or supplement thereto as of its date and the date of such opinion contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial information or statistical data contained therein, as to which such counsel need express no belief).

The bring down letter of counsel described above shall be rendered to the JPMorgan Parties at the request of the Company and shall so state therein.

Microsoft Corporation  
October 9, 2003

[JPMorgan Letterhead]

October 9, 2003

STRICTLY CONFIDENTIAL

Microsoft Corporation  
One Microsoft Way  
Redmond, Washington 98052-6399

Attention: Mr. Brent Callinicos  
Corporate Vice President and Treasurer

Ladies and Gentlemen:

Pursuant to our recent discussions, we are pleased to confirm the arrangements under which J.P. Morgan Securities Inc. ("JPMorgan") is exclusively engaged by Microsoft Corporation (collectively with its subsidiaries and affiliates, the "Company") to act (a) as its financial advisor in connection with its structuring, analysis and consideration of various alternative potential Transactions (as defined in Section 3 below) to be undertaken by the Company and (b) as the counterparty in connection with any Transaction during the term of this agreement.

Section 1. Financial Advisory and Other Services. During the term of this agreement we will:

(a) together with the Company's legal counsel and tax and accounting advisors, assist the Company in structuring, identifying and evaluating the relative merits and feasibility of one or more potential Transactions; and

(b) act as the exclusive counterparty in connection with the program (the "Stock Option Transfer Program") contemplated by the Program Agreement dated as of October 9, 2003 between the Company and JPMorgan Chase Bank (the "Program Agreement").

The Company and JPMorgan agree that the Standard Terms and Conditions attached hereto form an integral part of this agreement and are hereby incorporated herein by reference in their entirety.

Section 2. Compensation. The fees payable by the Company to JPMorgan for the financial advisory services described in Section 1(a) shall be as follows:

(a) upon distribution (whether by email or otherwise) by the Company to its employees of a disclosure document describing the terms and conditions of a Transaction to be entered into between the Company and JPMorgan, an engagement fee of \$6,000,000 shall be payable to JPMorgan by the Company for the financial advisory services described in Section 1(a) above (it being understood and agreed that such fee shall be fully earned when paid and shall be non-refundable (whether or not any Transaction is consummated));

(b) upon consummation of a Transaction between the Company and JPMorgan during the term of this agreement, if more than 50% of the employee stock options eligible for sale or transfer pursuant to the terms and conditions of the Transaction are sold or transferred by employees of the Company, an execution fee of \$4,000,000 (in addition to the engagement fee described in Section 2(a) above) shall be payable to JPMorgan by the Company for the financial advisory services described in Section 1(a) above (it being understood and agreed that such fee shall be fully earned when paid and shall be non-refundable); and



(c) upon consummation of a Transaction between the Company and JPMorgan, if more than 75% of the employee stock options eligible for sale or transfer pursuant to the terms and conditions of the Transaction are sold or transferred by employees of the Company, an supplemental execution fee of \$5,000,000 (in addition to the engagement fee described in Section 2(a) above and the execution fee described in Section 2(b) above) shall be payable to JPMorgan by the Company for the financial advisory services described in Section 1(a) above (it being understood and agreed that such fee shall be fully earned when paid and shall be non-refundable).

Section 3. Other Assignments. In the event that the Company, within two years of the date hereof, determines to enter into (a) any hedging or equity derivative transaction pursuant to which Company employee stock options are sold or transferred by employees of the Company and purchased by a third party, (b) any hedging or equity derivative transaction pursuant to which Company employee stock options are sold or transferred by employees of the Company, purchased by the Company and subsequently resold or transferred (with or without amendment) by the Company to a third party or (c) any transaction that is economically substantially equivalent to the transactions described in the foregoing clause (a) or (b), (each transaction described in clauses (a), (b) and (c), a "Transaction"), the Company shall offer JPMorgan the right to act as exclusive structuring advisor and arranger and exclusive counterparty in connection with any such Transaction; *provided* that each party agrees to negotiate such terms in good faith; *provided further* that if the Stock Option Transfer Program closes and the Participating Options (as such term is defined in the Program Agreement) are transferred to, and paid for by, JPMorgan Chase Bank thereby becoming JPMorgan Options (as such term is defined in the Program Agreement), the agreements set forth in this Section 3 shall expire as of the Closing Date (as such term is defined in the Program Agreement) with respect to all future Transactions other than Transactions in foreign countries where the Stock Option Transfer Program was not made available to employees of Microsoft in such foreign countries. If JPMorgan agrees to act in any such capacity, the Company and JPMorgan will enter into the appropriate form of agreement relating to such hedging or equity derivative transaction involved and containing customary terms and conditions acceptable to the Company and JPMorgan, including provisions relating to the scope of JPMorgan's services, JPMorgan's compensation and an indemnification of JPMorgan. The Company acknowledges that the foregoing is neither an express nor implied commitment by JPMorgan to act in any such capacity or to purchase securities, or to provide or be responsible to provide any financing or other financial advisory services, which commitment shall only be set forth in a separate written agreement in customary form for the type of services being provided.

Section 4. Expenses and Payments. (a) All amounts payable under this agreement (including the Standard Terms and Conditions) shall be paid in immediately available funds in U.S. dollars, without setoff and without deduction for any withholding, value-added or other similar taxes, charges, fees or assessments.

(b) Each of the parties hereto agrees and acknowledges that it shall be responsible for fees and expenses of its own counsel and other professional advisors and its own travel costs, document production expenses and other similar expenses.

Section 5. Term. This agreement will be effective as of the date hereof (the "Effective Date") and, except as set forth in Section 3, will expire on the date eighteen months after the Effective Date. Our services hereunder may be earlier terminated with or without cause by you or by us at any time and without liability or continuing obligation to you or to us; *provided* that the provisions of Sections 2, 3 and 4 hereof and Sections 2 and 4 of the Standard Terms and Conditions shall survive any termination or expiration of this agreement.

Microsoft Corporation  
October 9, 2003

If the terms of our engagement as set forth in this agreement (including the attached Standard Terms and Conditions) are satisfactory, kindly sign the enclosed copy of this letter and return it to the undersigned. We look forward to working with the Company on this assignment.

Very truly yours,

J.P. MORGAN SECURITIES INC.

By: \_\_\_\_\_ /s/ PETER E. ENGEL

Name: Peter E. Engel  
Title: Managing Director

Microsoft Corporation  
October 9, 2003

Accepted and Agreed As Of The Date First Written Above:

MICROSOFT CORPORATION

By: \_\_\_\_\_ /s/ BRENT CALLINICOS

Name: Brent Callinicos  
Title: Corporate Vice President & Treasurer

Enclosure

STANDARD TERMS AND CONDITIONS

The following general terms and conditions shall be incorporated by reference into the engagement letter dated October 9, 2003 between Microsoft Corporation and JPMorgan to which these terms are attached (the "Engagement Letter"). Capitalized terms used below without definition shall have the meanings assigned to them in the Engagement Letter and any references herein to the "Agreement" shall mean the Engagement Letter together with these Standard Terms and Conditions.

Section 1. Financial Advisory Role, Information, Reliance, Confidentiality, etc.

(a) The Company understands that JPMorgan is acting solely as a financial advisor, is acting as an independent contractor and is not undertaking to provide any legal, accounting or tax advice in connection with its engagement under the Agreement and that JPMorgan's role in any due diligence will be limited solely to performing such review as it shall deem necessary to support its own advice, analysis and any role it may play as underwriter of securities and shall not be on behalf of the Company.

(b) The Company agrees to provide to JPMorgan all information reasonably requested by JPMorgan for the purpose of its engagement under the Agreement and also to provide access to employees and directors of the Company as may be reasonably requested. JPMorgan shall be entitled to rely upon and assume, without any obligation of independent verification, the accuracy and completeness of all information that is publicly available and of all information that has been furnished to it by the Company or any other party to any Transaction or otherwise reviewed by JPMorgan, and JPMorgan shall not assume any responsibility or have any liability therefor. JPMorgan has no obligation to conduct any appraisal of any assets or liabilities.

(c) In order to enable JPMorgan to bring relevant expertise to bear on its engagement under the Agreement from its global affiliates, the Company agrees that JPMorgan may share information obtained from the Company hereunder with its affiliates, and may perform the services contemplated hereby in conjunction with its affiliates, and that any JPMorgan affiliates performing services hereunder shall be entitled to the benefits and subject to the terms of the Agreement. The Company agrees that, following closing of any Transaction, JPMorgan may, at its option and expense, place an advertisement or announcement in such newspapers and periodicals as it may determine describing JPMorgan's role as financial advisor to the Company, *provided* that the Company shall have the right to review and pre-approve any such advertisement or announcement (such pre-approval not to be unreasonably withheld). The Company agrees that any prepared public statement or press release it may issue announcing any Transaction will contain, subject to applicable law, a reference to JPMorgan's role as financial advisor to the Company in connection with such Transaction, and that JPMorgan shall have the right to review and pre-approve any reference to it or its role as financial advisor under the Agreement in any such prepared public statement or press release made by the Company (such pre-approval not to be unreasonably withheld). The Company further agrees that JPMorgan shall be identified as the Sole Bookrunner, Global Coordinator and Structuring Agent in the S-3 Shelf Registration Statement filed by the Company and covering the sale of Company common stock by JPMorgan to hedge its exposure to ownership of any employee stock options purchased by JPMorgan pursuant to the terms and conditions of a Transaction between JPMorgan and the Company.

(d) JPMorgan's financial advice is intended solely for the benefit and use of the Board of Directors and management of the Company in considering the matters to which the Engagement Letter relates, is not on behalf of, and shall not confer rights or remedies upon, any shareholder or creditor of the Company or any other person, and may not be used or relied upon for any other purpose.

Section 2. Other Business Relationships.

(a) You understand that JPMorgan and its affiliates (collectively, "Morgan") comprise a full service securities firm and a commercial bank engaged in securities trading and brokerage activities, as well as providing investment banking, asset management, financing, and financial advisory services and other commercial and investment banking products and services to a wide range of corporations and individuals. In the ordinary course of our trading, brokerage, asset management, and financing activities, Morgan may at any time hold long or short positions, and may trade or otherwise effect transactions, for our own account or the accounts of customers, in debt or equity securities or senior loans of the Company or any other company that may be involved in any Transaction. Morgan recognizes its responsibility for compliance with the terms of the Confidentiality Agreements and the federal securities laws in connection with such activities.

(b) In addition, Morgan may have and may in the future have investment and commercial banking, trust and other relationships with parties other than the Company, which parties may have interests with respect to the Company or a Transaction. Although Morgan in the course of such other relationships may acquire information about any Transaction or such other parties, Morgan shall have no obligation to disclose such information, or the fact that Morgan is in possession of such information, to the Company or to use such information on the Company's behalf. Furthermore Morgan may have fiduciary or other relationships whereby Morgan may exercise voting power over securities of various persons, which securities may from time to time include securities of the Company or others with interests with respect to a Transaction. The Company acknowledges that Morgan may exercise such powers and otherwise perform its functions in connection with such fiduciary or other relationships without regard to its relationship to the Company hereunder; *provided* that Morgan complies with the provisions of the Confidentiality Agreements.

(c) Specifically, the Company acknowledges its understanding that certain of JPMorgan's affiliates engaged in the venture capital business, or portfolio companies in which they have investments (such affiliates and portfolio companies, collectively, the "Morgan Purchaser") may be potential parties to a Transaction. The Company acknowledges its understanding that the interests of the Morgan Purchaser may differ from those of the Company with respect to the timing, pricing and terms and conditions of any Transaction and otherwise, and the Company expressly waives any conflicts of interest which may result from JPMorgan's multiple roles as advisor to the Company hereunder and as an affiliate of the Morgan Purchaser. In addition, the Company acknowledges its understanding that no advice or recommendation rendered by JPMorgan hereunder shall be deemed a representation that the Morgan Purchaser would agree to participate in a Transaction structured in accordance with such advice.

Section 3. Miscellaneous. The Agreement may not be assigned by the Company or JPMorgan without the prior written consent of the other. The Agreement constitutes the entire understanding of the parties with respect to the subject matter thereof, supersedes all prior agreements with respect thereto, may not be amended except in writing signed by both of the parties, has been duly authorized and executed by each of the parties hereto and constitutes the legal, binding obligation of each such party. The Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, and all rights and remedies shall be governed by said laws, without regard to conflict of laws principles. Each of the parties hereto agree 1) that the Agreement involves at least \$100,000 and 2) that the Agreement has been entered into by the parties hereto in express reliance upon 6 Del.C. §2708. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, the Agreement shall be brought in a federal court located in the State of Delaware or a Delaware state court. Each of the parties hereby consents to exclusive personal jurisdiction in any such action, suit or proceeding brought in any such state or federal court (and of the appropriate appellate courts therefrom) and irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient form. JPMorgan and the Company (on its own behalf and, to the extent permitted by law, on behalf of its shareholders) each waives any right to trial by jury in any action, claim, suit or proceeding with respect to JPMorgan's engagement as financial advisor under the Agreement or its role in connection herewith.

**PROGRAM AGREEMENT**  
**between**  
**MICROSOFT CORPORATION**  
**and**  
**JPMORGAN CHASE BANK,**  
**relating to the**  
**STOCK OPTION TRANSFER PROGRAM OF**  
**MICROSOFT CORPORATION**  
**dated as of**  
**October 9, 2003**

## PROGRAM AGREEMENT

Program Agreement dated as of October 9, 2003 between Microsoft Corporation, a Washington corporation (the “**Company**”) and JPMorgan Chase Bank (the “**Bank**”):

WHEREAS, the Company proposes to establish a stock option transfer program for certain employee stock options issued by the Company (the “**Option Transfer Program**”), on the terms and subject to the conditions set forth in the draft Notice to Eligible Employees of Stock Option Transfer Program (the “**Notice of Option Transfer Program**”) and the draft related Election Form (the “**Election Form**”), copies of which in substantially similar form will be made available to employees of the Company in either electronic or paper form and are attached hereto as Exhibits A and B, respectively, which, together with any other documents, materials or filings generally distributed to the Company’s employees relating to the Option Transfer Program (other than the Transaction Agreements (as defined below)), all as amended or supplemented from time to time in accordance with the terms hereof, are referred to herein as the “**Transaction Disclosure Materials**”;

WHEREAS, concurrently with the execution of this Agreement, the Company, the Bank and JPMSI shall execute and deliver the Registration Agreement (as amended from time to time, the “**Registration Agreement**”) dated as of the date hereof, among the Company, the Bank and JPMSI (the Registration Agreement, together with this Agreement, the Confirmation (as defined below) and Master Agreement (as defined below), the “**Transaction Agreements**,” and the Transaction Agreements, together with the Transaction Disclosure Materials, the “**Transaction Documents**”); and

WHEREAS, the Company and the Bank wish to provide for certain matters relating to the Option Transfer Program:

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth herein, the Company and the Bank hereby agree as follows:

**1. Certain Terms.** The following terms, as used herein, shall have the following meanings:

“**Aggregate Cash Payment**” shall have the meaning set forth in Section 5.

“**Archipelago**” means the Archipelago Exchange.

“**Available Trading Day**” means a Trading Day on which (i) there is no Market Disruption, (ii) no Registration Unavailability Event shall have occurred and be continuing and (iii) there is no Bring-down Event.

“**Average Closing Price**” means the arithmetic average (rounded up to the nearest 1/10,000 of a dollar) of the Closing Prices of the Common Stock for every Available Trading Day during the Averaging Period.

“**Average Closing Price Report**” shall have the meaning set forth in Section 3(b).

“**Averaging Period**” means the period (x) beginning on and including the first Available Trading Day after the earlier of (i) the Final Report Date and (ii) a prior date after the Election Deadline on which a Final Tabulation Report was transmitted to the Bank prior to 5:00 p.m. (New York time) and otherwise in conformance with Section 2, and (y) ending on and including the earlier of (i) the Averaging Period End Date and (ii) the 15th consecutive Available Trading Day.

“**Averaging Period Deficiency**” means that the Averaging Period consists of five or fewer Available Trading Days.

“**Averaging Period End Date**” means December 15, 2003.

“**Bank Unavailability Notice**” means a written notice delivered to the Company by the Bank pursuant to Section 11(g) indicating that the Bank has received an Outside Counsel Notification.

“**Bring-down Event**” means a failure by the Company or outside counsel for the Company, on any Trading Day during the Averaging Period, to deliver to the Bank as promptly as practicable but in any event prior to 9:00 a.m. (New York time) on such Trading Day (if requested prior to 8:00 p.m. (New York time) on the immediately prior Trading Day), upon a request by the Bank pursuant to Section 6(d) of the Registration Agreement, a bring-down letter in the form of Annex E to the Registration Agreement; *provided* that the Bank may waive the requirement of such bring-down letter in its sole discretion.

“**Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business in U.S. Dollars in New York City.

“**CBOE**” means the Chicago Board Options Exchange.

“**Clear Available Trading Day**” means an Available Trading Day on which a Bank Unavailability Notice has not been delivered.

“**Closing**” shall have the meaning set forth in Section 9(a).

“**Closing Date**” shall have the meaning set forth in Section 9(a).

“**Closing Price**” means, with respect to the Common Stock on any Trading Day, the Official NASDAQ Closing Price (NOCP) on such Trading Day.

“**Common Stock**” means the common stock of the Company, par value \$0.00000625 per share.

“**Company**” shall have the meaning set forth in the introduction.

“**Commission**” means the Securities and Exchange Commission.

“**Confirmation**” shall have the meaning set forth in Section 4(a).



“**Consent**” means any consent, approval, order, permit, license, exemption or authorization.

“**Disrupted Day**” means any Trading Day on which Nasdaq, Archipelago or the CBOE fails to open for trading during its regular trading session.

“**Early Closure**” means the closure on any Trading Day of Nasdaq, Archipelago or the CBOE, prior to its Scheduled Closing Time, unless such earlier closing time is announced by Nasdaq, Archipelago or the CBOE, as the case may be, at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on Nasdaq, Archipelago or the CBOE, as the case may be, on such Trading Day and (ii) the submission deadline for orders to be entered into the Nasdaq system, Archipelago or the CBOE, as the case may be, for execution at the Scheduled Closing Time on such Trading Day.

“**Election Deadline**” means the date and time on which the Election Period terminates, as set forth in the Notice of Stock Option Transfer Program, or such later time to which the Company extends the Election Period pursuant to Section 8.

“**Election Form**” shall have the meaning set forth in the preamble.

“**Election Period**” means the period beginning at the date and time of the commencement of the Stock Option Transfer Program set forth in the Notice of Stock Option Transfer Program and ending at the Election Deadline.

“**Election Period Extension Event**” means (i) an event has occurred or a condition shall exist that has caused the Notice of Option Transfer Program or the Election Form to include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or (ii) a Stock Option Transfer Program Disruption Event has occurred.

“**Election Period Extension Notice**” means a written notice delivered by the Company to the Bank describing the Company’s reasonable determination that on the date of such delivery a Election Period Extension Event has occurred.

“**Eligible Option**” shall have the meaning assigned thereto in the Notice of Option Transfer Program.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“**Exchange Disruption**” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Bank reasonably and in good faith) the ability of market participants in general (i) to effect transactions in, or obtain market value for, the Common Stock on Nasdaq or Archipelago, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to Common Stock on the CBOE.

“**Ex-Dividend Date**” has the meaning set forth Section 4(c).

“**Filing**” means any requisite registration, qualification, declaration or other statement with any Governmental Authority.

“**Final Report Date**” shall have the meaning set forth in Section 2(b).

“**Final Tabulation Report**” shall have the meaning set forth in Section 2(b).

“**Governmental Authority**” means any federal, state or foreign government or any court of competent jurisdiction, regulatory or administrative agency or commission or other governmental authority or instrumentality, state, federal or foreign or supranational.

“**Indemnified Persons**” shall have the meaning set forth in Section 19(b).

“**Interim Price Report**” shall have the meaning set forth in Section 3(a).

“**JPMorgan Entity**” shall have the meaning set forth in Section 6(a).

“**JPMorgan Options**” means the Participating Options, as amended and restated pursuant to Section 4 and evidenced by the Confirmation.

“**JPMorgan**” means J.P. Morgan Securities Inc.

“**Law**” means any statute, law, ordinance, rule, regulation, registration, permit, order, license, decree or judgment promulgated or issued by any Governmental Authority.

“**Losses**” shall have the meaning set forth in Section 19(b).

“**Make-Up Amount**” means an amount, which may be negative, equal to the product of the Shortfall Amount *times* the Price Differential, as determined by the Bank in good faith, in consultation with the Company.

“**Make-Up Days**” means a number of consecutive Clear Available Trading Days beginning on the first Clear Available Trading Day immediately following the last day of the Averaging Period, which number shall be equal to 15 *minus* the number of Clear Available Trading Days in the Averaging Period.

“**Market Disruption**” means the occurrence or existence of (i) a Trading Disruption or an Exchange Disruption, that, in either case, the Bank determines reasonably and in good faith is material, at any time during the one hour period that ends at the close of the regular trading session of Nasdaq, Archipelago or the CBOE, (ii) an Early Closure or (iii) a Disrupted Day.

“**Master Agreement**” means the 1992 ISDA Master Agreement (Multicurrency-Cross Border) dated as of January 22, 1997 between the Company and the Bank (as successor in interest to Morgan Guaranty Trust Company of New York), as amended and supplemented from time to time.

“**Multi-Year Grant Options**” shall have the meaning assigned thereto in the Notice of Option Transfer Program.

“**Nasdaq**” means the Nasdaq National Market of The Nasdaq Stock Market, Inc.

“**No-Action Request Letter**” means the letter dated October 9, 2003 to the Commission by Davis Polk & Wardwell and Preston Gates & Ellis LLP on behalf of the Bank and the Company, respectively, requesting exemptive and no-action relief from certain rules promulgated under the Exchange Act.

“**Notice of Option Transfer Program**” shall have the meaning set forth in the preamble.

“**Option Shares**” shall have the meaning set forth in Section 14(d).

“**Option Transfer Program**” shall have the meaning set forth in the preamble.

“**Outside Counsel Notification**” means a written notice delivered to the Bank by outside counsel to the Bank on any Trading Day in the Averaging Period advising the Bank that it should not use the Prospectus to effect sales of the Shares on such Trading Day.

“**Participating Holder**” means a holder of Participating Options prior to the assignment thereof described in Section 4.

“**Participating Options**” shall have the meaning set forth in Section 2(b).

“**Payment Obligation**” shall have the meaning set forth in Exhibit F hereto.

“**Person**” means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any Governmental Authority.

“**Price Differential**” means an amount, which may be negative, equal to the Average Closing Price *minus* the arithmetic average (rounded up to the nearest 1/10,000 of a dollar) of the Closing Prices for all days on which the Shortfall Sales are executed.

“**Pricing Grid**” shall have the meaning set forth in Section 11(h).

“**Price Report Format**” shall have the meaning set forth in Section 3(a).

“**Prospectus**” shall have the meaning set forth in the Registration Agreement.

“**Registration Agreement**” shall have the meaning set forth in the preamble.

“**Registration Statement**” shall have the meaning set forth in the Registration Agreement.

“**Registration Unavailability Event**” means (i) any event shall occur or condition shall exist as a result of which the prospectus contained in the Registration Statement as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading, (ii) it is necessary to amend or supplement such prospectus to comply with law, or (iii) a stop order suspending the effectiveness of the Registration Statement shall have been issued or a proceeding for that purpose shall have been instituted or, to the knowledge of the Company or JPMorgan, threatened, by the Commission.

**“Scheduled Closing Date”** means the third Business Day immediately following the last day of the Averaging Period.

**“Scheduled Closing Time”** means, with respect to Nasdaq, Archipelago or the CBOE, the scheduled weekday closing time, without regard to after hours or any other trading outside of the regular trading session hours.

**“Securities Act”** means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

**“Series”** means, in relation to the Eligible Options, Eligible Options with the same exercise price and expiration date (or the same grant value date and final valuation date in the case of stock appreciation rights); *provided* that Multi-year Grant Options shall be considered a separate Series from Eligible Options that have the same exercise price and expiration date but are not Multi-year Grant Options.

**“Share”** means a share of Common Stock.

**“Shortfall Amount”** means a number of Shares equal to (a) the number of Shares necessary for the JPMorgan Entities to sell for the purpose of establishing the Bank’s or its affiliates’ initial “delta” hedge position in respect of the JPMorgan Options, *times* (b) a number equal to the number of Make-Up Days, *divided by* (c) 15.

**“Shortfall Determination Date”** has the meaning set forth in Section 18(a)(ii).

**“Shortfall Sales”** shall have the meaning set forth in Section 18(a)(i).

**“Special Fixed Date Series”** means (i) the Series of Participating Options with an exercise price of \$47.7188 and an expiration date of December 6, 2006, (ii) the Series of Participating Options with an exercise price of \$45.8750 and an expiration date of December 8, 2006 and (iii) the Series of Participating Options with an exercise price of \$48.3125 and an expiration date of December 13, 2006.

**“Statement”** shall have the meaning set forth in Section 14(c).

**“Stock Option Transfer Program Disruption Event”** shall have the meaning assigned thereto in the Notice of Option Transfer Program.

**“Tabulation Format”** shall have the meaning set forth in Section 2(a).

**“Trading Day”** means any day (except November 28, 2003) on which Nasdaq, Archipelago or the CBOE, as the case may be, is scheduled to be open for trading for its regular trading session.

“**Trading Disruption**” means any suspension of or limitation imposed on trading by Nasdaq, Archipelago or the CBOE, or otherwise and whether by reason of movements in price exceeding limits permitted by Nasdaq, Archipelago or the CBOE or otherwise (i) in the Common Stock on Nasdaq or Archipelago or (ii) in futures or options contracts relating to the Common Stock on the CBOE.

“**Tranche**” shall have the meaning set forth in the Confirmation.

“**Transaction Agreements**” shall have the meaning set forth in the preamble.

“**Transaction Disclosure Materials**” shall have the meaning set forth in the preamble.

“**Transaction Documents**” shall have the meaning set forth in the preamble.

“**Transactions**” means the transactions contemplated by the Transaction Documents, including without limitation the amendment and restatement of the Participating Options pursuant to Section 4 and the performance by the Company and the Bank of their respective obligations under the JPMorgan Options.

“**Unavailability Notice**” means a written notice describing the Company’s reasonable determination that a Registration Unavailability Event has occurred.

“**Unhedged JPMorgan Options**” means those JPMorgan Options with respect to which the Bank shall determine in good faith, in consultation with the Company, that the Bank and its affiliates were unable to establish an initial hedge position on the Clear Available Trading Days in the Averaging Period.

“**Unwind Amount**” means an amount, which may be negative, that the Bank determines to be its and its affiliates total out-of-pocket losses and costs (or gain, in which case expressed as a negative number) in connection with terminating or liquidating the position hedging its exposure to the ownership of the JPMorgan Options (which, for the avoidance of doubt, shall be the total out-of-pocket losses and costs (or gain, in which case expressed as a negative number) in connection with the Bank terminating or liquidating its “rho” or interest rate hedge and unwinding its initial “delta” or stock price hedge).

“**Unwind Determination Date**” has the meaning set forth in Section 18(b).

**2. Tabulations.** (a) Not later than 6:00 p.m. (New York time) on each day of the Election Period, the Company shall transmit to the Bank by electronic mail to the addresses listed on Annex A hereto, a tabulation in the form set forth as Exhibit C hereto (the “**Tabulation Format**”) setting forth as of 3:00 p.m. New York time on such day the number of options of each Series submitted to the Option Transfer Program and not withdrawn on or before such time.

(b) Not later than 5:00 p.m. (New York time) on the second calendar day following the last day of the Election Period (the “**Final Report Date**”), the Company shall transmit to the Bank by electronic mail to the addresses listed on Annex A hereto, a tabulation (the “**Final Tabulation Report**”) in the Tabulation Format setting forth as of such time the number of options of each Series irrevocably submitted to the Option Transfer Program at or prior to the Election Deadline (“**Participating Options**”). Upon receipt of the Final Tabulation Report, the Bank shall promptly acknowledge its receipt of the Final Tabulation Report by signing and delivering to the Company the cross-receipt set forth as Exhibit D hereto.

**3. Calculation of Average Closing Price.** (a) No later than 6:00 p.m. (New York time) on each Available Trading Day during the Averaging Period (other than the last Available Trading Day of such Averaging Period), the Bank shall calculate in good faith the Average Closing Price for the Averaging Period (as if the Averaging Period ended on such day) through and including such Available Trading Day and transmit such calculation to the Company by electronic mail to the addresses listed on Annex B in the format (the “**Price Report Format**”) set forth as Exhibit E-1 hereto (an “**Interim Price Report**”).

(b) No later than 6:00 p.m. (New York time) on the last Available Trading Day of the Averaging Period, the Bank shall calculate in good faith, in consultation with the Company, the Average Closing Price and transmit such calculation to the Company by electronic mail to the addresses listed on Annex B in the Price Report Format set forth as Exhibit E-2 (the “**Average Closing Price Report**”). The Bank shall, not later than the third Business Day following receipt of a written request by the Company, provide the Company with a written explanation of the basis for any calculation made hereunder. The Bank’s calculation of the Average Closing Price, as communicated in the Average Closing Price Report, shall be final and binding on the Bank and the Company for all purposes of the Option Transfer Program.

**4. Assignment and Modification of Participating Options.** (a) Upon the terms and subject to the conditions set forth in this Agreement, as of the Closing, each Participating Option set forth in the Final Tabulation Report shall be assigned by the Participating Holder thereof to the Bank and the terms of such Participating Option are, effective as of the Closing Date, hereby amended and restated to have the terms and conditions set forth in the form of Confirmation attached as Exhibit F hereto. The parties shall promptly execute a confirmation (the “**Confirmation**”) in the form of Exhibit F hereto; *provided* that the amendment and restatement set forth in the immediately preceding sentence shall be effective upon the Closing notwithstanding any delay in executing or failure to execute such Confirmation. Each Tranche set forth on Schedule A of the Confirmation shall correspond to a Series of Participating Options, which means that such Tranche shall have (w) a Trade Date (as defined in the Confirmation) of the last day of the Averaging Period, (x) a Number of Options (as defined in the Confirmation) equal to the aggregate number of Participating Options for such Series, (y) an Exercise Price (as defined in the Confirmation) equal to the exercise price (or the grant date value in the case of a stock appreciation right) for such Series, and (z) an Expiration Date (as defined in the Confirmation) determined as of follows: (i) if the expiration date (or the final valuation date in the case of a stock appreciation right) for such Series is longer than 36 months (or 24 months in the case of Multi-year Grant Options) from the last day of the Averaging Period, an Expiration Date of 36 months (or 24 months in the case of Multi-year Grant Options) from the last day of the Averaging Period, (ii) in the case of Participating Options from a Special Fixed Date Series, an Expiration Date that is the same as the expiration date for such Special Fixed Date Series (*provided* that if the Averaging Period ends after December 5, 2003, the Expiration Date for each such Tranche referred to in clause (ii) shall be the earlier of (x) 36 months from the last day of

the Averaging Period and (y) the original expiration date for such Special Fixed Date Series extended by a number of calendar days equal to the number of calendar days from, and including, December 5, 2003 to, but excluding, the calendar day on which the Averaging Period ends) and (iii) in all other cases, an Expiration Date that is the same as the expiration date (or the final valuation date in the case of a stock appreciation right) for such Series (*provided* that if the Averaging Period ends after December 5, 2003, the Expiration Date for each such Tranche referred to in clause (iii) shall be extended by a number of calendar days equal to the number of calendar days from, and including, December 5, 2003 to, but excluding, the calendar day on which the Averaging Period ends); *provided* that if the Expiration Date so determined pursuant to clause (i), (ii) or (iii) above is not a Business Day, (x) if such Expiration Date as so determined would be 36 months (or 24 months in the case of Multi-year Grant Options) from the last day of the Averaging Period, such Expiration Date shall instead be the immediately succeeding Business Day and (y) in all other cases, such Expiration Date shall instead be the immediately preceding Business Day. Notwithstanding the foregoing, if the number of Clear Available Trading Days in the Averaging Period is less than 15 but no Averaging Period Deficiency exists, then the parties agree to amend and restate the Confirmation as of the last Make-Up Day such that the Expiration Dates for the Unhedged JPMorgan Options shall be redetermined pursuant to clause (z) above as if the Averaging Period had ended on the last Make-Up Day.

(b) The Company acknowledges and agrees that, effective as of the Closing Date, the JPMorgan Options and, upon execution thereof, the Confirmation, shall be valid, binding and enforceable obligations of the Company to the Bank, without any further action or the execution of any further documents or agreements, and notwithstanding any defect or lack of effectiveness of any assignment of any Participating Options from the Participating Holders.

(c) If at any time during the period from and including the first day of the Averaging Period, to and including the last day of the Averaging Period, an ex-dividend date for a cash dividend occurs with respect to the Shares (an “**Ex-Dividend Date**”), the Company shall pay to the Bank, on the day on which such cash dividend is paid or to be paid by the Issuer, an amount in United States Dollars equal to the product of (i) the value of such dividend paid or to be paid with respect to one Share times (ii) the product of the number of Participating Options times (iii) a percentage (in no event greater than 100%) provided by the Bank reflecting its delta hedge position on such date; provided that in lieu of such payment, the parties may agree in good faith to an adjustment or other method of compensating the Bank in respect of such dividend.

**5. Payment.** Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, the Bank shall pay to the Company an amount (the “**Aggregate Cash Payment**”) equal to the sum of the cash amounts to be paid for all Series of Participating Options in the Final Tabulation Report, as may have been amended pursuant to Section 7 hereof, obtained by, in the case of each Series, multiplying (i) the appropriate cash amount to be paid for each Participating Option of such Series by reference to the Pricing Grid by (ii) the number of Participating Options in such Series, by wire transfer or credit of immediately available funds to an account of the Company specified by notice to the Bank no later than three Business Days before the Closing Date.

**6. Share Transactions by the Bank.** (a) The parties hereto acknowledge that the Bank and/or one or more of its affiliates (each, a “JPMorgan Entity”) intends to enter into market transactions in order to hedge its exposure to the ownership of the JPMorgan Options and otherwise in connection with the Stock Option Transfer Program. These market transactions will include sales of Common Stock which may take place during the Participation and Averaging Periods and after the end of the Averaging Period. The number of Shares to be offered and sold pursuant to the Registration Statement will be greater than the number JPMorgan Entities wish to sell in order to hedge their exposure. Accordingly, the Bank expects JPMorgan Entities to repurchase Shares in secondary market transactions so that they will be in its desired hedge position after taking into account all such sales and purchases. The number of Shares repurchased may be a significant percentage of the number of Shares offered hereunder, and, depending on market factors and the terms of the JPMorgan Options, is likely to represent substantially more than half of the number of Shares offered and sold. JPMorgan Entities may also buy or sell additional Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in connection with these hedging activities. JPMorgan Entities will make their own determination as to whether, when or in what manner any of these hedging or market activities in Shares will be conducted.

(b) The parties hereto further acknowledge that in addition to the hedging activities described in clause (a) above, JPMorgan Entities may be active in the market for Shares other than in connection with these hedging activities in relation to the Stock Option Transfer Program. JPMorgan Entities will make their own determination as to whether, when or in what manner any of these market activities will be conducted.

**7. Accuracy of Final Tabulation Report.** (a) The Company acknowledges and agrees that the number of JPMorgan Options for each Tranche, the exercise prices of the JPMorgan Options for each such Tranche, the expiration dates of the JPMorgan Options for each such Tranche and the amount of the Aggregate Cash Payment shall be calculated based on information provided in the Final Tabulation Report, as amended in accordance with the immediately succeeding paragraph, notwithstanding any inaccuracy contained therein, and the Bank shall have no obligation to verify the accuracy thereof.

(b) The Company may amend the Final Tabulation Report by delivering to the Bank on or prior to the end of the Averaging Period, an amended and restated Final Tabulation Report in the Tabulation Format with the amended number of JPMorgan Options for each Tranche, the exercise prices of the JPMorgan Options for each such Tranche, the expiration dates of the JPMorgan Options for each such Tranche and the amount of the Aggregate Cash Payment; *provided that* the Final Tabulation Report may be amended as follows: (x) no change may be made to any number or any other component set forth in the Final Tabulation Report other than the number of JPMorgan Options and (y) the sum of all changes to the number of JPMorgan Options that is amended hereby shall not exceed 100,000 for all Tranches (for the avoidance of doubt, a change in either direction (i.e., additions and subtractions of JPMorgan Options) shall be added and not netted for purposes of this calculation).

(c) If at any time after the Final Report Date, the Company becomes aware of any significant errors in the number of Participating Options reported to the Bank on the Final Tabulation Report or from time to time pursuant to this subsection, the Company shall promptly transmit to the Bank by electronic mail to the addresses listed on Annex A hereto the corrected number of Participating Options.



(d) If at any time after the Final Report Date, the Company becomes aware of any errors in the Final Tabulation Report that are not reflected therein pursuant to the amendments permitted under Section 7(b) above, the Company and the Bank will, with respect to the Participating Options in excess of the 100,000 options limit referred to in Section 7(b) above, enter into good faith negotiations with a view to entering, subject to any applicable laws, into mutually acceptable documentation which would be expected to reflect the accurate number of the Participating Options and make appropriate adjustments between the Bank and the Company in respect of either reduction or increase in the number of the Participating Options.

(e) Notwithstanding any provision hereof to the contrary, in no event shall the number of Participating Options in the Final Tabulation Report exceed the number of Participating Options for which the Common Stock underlying such options has been registered pursuant to the Registration Statement.

**8. Extension of Election Period.** (a) If at any time during the period beginning on the fifth day prior to the day on which the Election Deadline occurs and ending at the Election Deadline, an Election Period Extension Event occurs, the Company shall deliver to the Bank an Election Period Extension Notice. Upon delivery of such notice, the Company may extend the Election Period for a number of Business Days that would allow the number of remaining days in the Election Period to equal five Business Days from the remedying of such Election Period Extension Event until the Election Deadline; *provided* that the Election Period shall not be extended beyond November 28, 2003.

(b) The Company agrees that it shall, promptly upon delivery of an Election Period Extension Notice, use its reasonable best efforts to remedy the Election Period Extension Event, including by making all necessary Filings (including without limitation on Form 8-K under the Exchange Act) to cause the Election Period Extension Event to terminate. In addition, the Company agrees that it shall promptly inform Participating Holders that an Election Period Extension Event has occurred and the extension of the Election Period.

(c) If at any time prior to the Election Deadline, the Company requests that the Bank agree to an extension of the Election Deadline for any reason (other than the occurrence of an Election Period Extension Event), the Bank shall consider such request in good faith and shall not unreasonably withhold its consent to such extension; *provided* that the Election Period shall not be extended beyond November 28, 2003.

**9. Closing; Conditions to Closing.** (a) The closing (the “**Closing**”) of the Option Transfer Program shall take place at the offices of Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York 10017, on the later of (i) the Scheduled Closing Date or (ii) as soon as possible, but in no event later than three Business Days after the satisfaction of the conditions set forth in this Section 9 below (other than conditions that by their nature are to be satisfied and are in fact satisfied at the Closing), or at such other time or place as the parties may agree (the “**Closing Date**”). At the Closing, (i) the Participating Options shall be assigned and modified as set forth in Section 4 hereof and (ii) the Bank shall pay to the Company the amounts set forth in Section 5 hereof.

(b) The obligations of the Bank to consummate the Transactions shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived in writing:

(i) no Stock Option Transfer Program Disruption Event shall have occurred and be continuing on the Closing Date;

(ii) the Company shall have entered into and performed in all material respects its obligations under any Transaction Agreement to which it is a party or is intended to be a party, which are required to be entered into or performed on or prior to the Closing Date;

(iii) no Transaction Agreement shall have been terminated;

(iv) the representations and warranties by the Company in this Agreement shall be accurate in all material respects at and as of the Closing Date as if made at and as of such date; and

(v) no action is taken, or any approval withheld, by any Governmental Authority of competent jurisdiction that would, directly or indirectly, prevent or make it illegal for JPMorgan to conduct the market transactions described in Section 6(a) herein.

(c) The obligations of the Company to consummate the Transactions shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived in writing:

(i) no Stock Option Transfer Program Disruption Event shall have occurred and be continuing on the Closing Date;

(ii) the Bank shall have entered into and performed in all material respects its obligations under any Transaction Agreement to which it is a party or is intended to be a party, which are required to be entered into or performed on or prior to the Closing Date;

(iii) no Transaction Agreement shall have been terminated; and

(iv) the representations and warranties by the Bank in this Agreement shall be accurate in all material respects at and as of the Closing Date as if made at and as of such date.

**10. Termination Events.** (a) This Agreement may be terminated:

- (i) by mutual written agreement of the Bank and the Company;
- (ii) by either party if an Averaging Period Deficiency occurs;
- (iii) by either party at any time after March 24, 2004, if, as of such time, the Closing has not occurred;
- (iv) by the Bank pursuant to Section 13;
- (v) by the Company during the Election Period, if any event or events occur that have resulted or may result, in the Company's reasonable judgment, in a material impairment of the contemplated compensatory objectives of the Option Transfer Program; or
- (vi) by the Bank if the Election Period does not end on or prior to November 28, 2003.

(b) If this Agreement is terminated as permitted by this Section, this Agreement shall be void and the parties hereto shall cease to have any obligations to one another under this Agreement except as provided in this Section. The provisions of Sections 1, 10, 18, 19, 22, 23, 24 and 25 of this Agreement shall survive any termination hereof pursuant to Section 10(a).

**11. Certain Covenants of the Parties.** Each of the Bank and the Company agree that

(a) The parties shall use their respective reasonable best efforts to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the Option Transfer Program as promptly as practicable, including (i) preparing and filing as promptly as practicable with any Governmental Authority or other Persons all documentation and to effect all necessary Filings, and (ii) obtaining and maintaining all Consents required to be obtained from any Governmental Authority or other third party, in each case, that are necessary, proper or advisable to consummate the Option Transfer Program.

(b) Each of the Bank and the Company shall, in connection with the efforts referenced in clause (a) to obtain all required Consents for the consummation of the Option Transfer Program, use its reasonable best efforts, subject to applicable Law, to (i) cooperate in all respects with the other party hereto in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a third party (including sharing copies of any such filings or submissions reasonably in advance of the filing or submission thereof); (ii) keep each of the other parties hereto informed of any communication received by any such party from, or, given by such party to any Governmental Authority, and of any communication received or given in connection with any proceeding by a third party, in each case regarding the Option Transfer Program; and (iii) permit each of the other parties hereto to review in advance any communication intended to be given by it to, and consult with the other parties in advance of any meeting or conference with, the Commission or any other Governmental Authority or, in connection with any proceeding by a third party, with any other Person, and to the extent requested by the Bank or the Company, and permitted by the Commission or such other applicable Governmental Authority or other Person, give the other party the opportunity to attend and participate in such meetings and conferences.

(c) In furtherance and not in limitation of the covenants of the parties contained in clauses (a) and (b), if any objections are asserted with respect to the Option Transfer Program, or if any suit is instituted (or threatened to be instituted) by the Commission or any other Governmental Authority challenging the Option Transfer Program, or that would otherwise prohibit or materially impair or materially delay the Option Transfer Program, each of the Bank and the Company shall use its reasonable best efforts to resolve any such objections or suits so as to permit consummation of the Option Transfer Program.

(d) In the event that any administrative or judicial action or proceeding is instituted (or threatened to be instituted) by any Person (other than the Commission or any other Governmental Authority) challenging the Option Transfer Program, each of the Bank and the Company shall cooperate in all respects with each other and use its respective, reasonable best efforts to defend contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the Option Transfer Program.

(e) Each of the Bank and the Company acknowledge and agree that after the Election Deadline, it shall use its reasonable best efforts not to do anything or omit to do anything on or prior to the later of (x) the Closing Date and (y) the last Make-up Day, that would cause (i) a Registration Unavailability Event, or (ii) a Stock Option Transfer Program Disruption Event.

(f) Promptly upon the occurrence of a Registration Unavailability Event, (x) the Company shall deliver an Unavailability Notice to the Bank and (y) the Company agrees that it shall inform Participating Holders promptly after the end of the Averaging Period, as to which Trading Days were not counted as Available Trading Days.

(g) If on any Trading Day in the Averaging Period, the Company has not delivered an Unavailability Notice to the Bank, and the Bank receives an Outside Counsel Notification, the Bank shall deliver a Bank Unavailability Notice to the Company in the manner set forth in Section 25.

(h) The parties agree that (x) as promptly as practicable after the execution of this Agreement, the Bank shall provide the pricing grid in respect of the Transactions to the Company and (y) the Bank and the Company shall in good faith and expeditiously negotiate any disagreements between them as to the pricing set forth therein. If the parties reach an agreement as to such pricing grid, the pricing grid as so agreed shall be attached as Exhibit G hereto and shall be deemed the "**Pricing Grid**". If the parties do not reach such agreement prior to October 14, 2003, then this Agreement shall be deemed terminated and such termination shall be deemed to have been made pursuant to Section 10(a)(vi).

**12. Certain Covenants of the Company.** The Company agrees that it shall:

(a) reserve and keep available sufficient Shares to deliver upon exercise by the Bank of the JPMorgan Options, as amended and restated pursuant to Section 4; and

(b) (x) conduct the Option Transfer Program in all material respects in conformance with the terms thereof set forth in the Notice of Option Transfer Program and Election Form and (y) except as permitted in Section 13, not amend, modify, terminate or withdraw the Option Transfer Program, Notice of Option Transfer Program or Election Form or any provision thereof or waive any provision of the Notice of Option Transfer Program or Election Form without the prior written consent of the Bank, other than such amendments, modifications, terminations or withdrawals that would not reasonably be expected to affect the Bank or any of its affiliates in any manner or result in any liability to the Bank.

**13. Transaction Disclosure Materials.** The Company agrees that, a reasonable time prior to using any Transaction Disclosure Material, filing any such material with the Commission or with any other Governmental Authority, or amending or modifying any such material, that (i) changes any of the terms of the Transactions that affect the Bank or (ii) could reasonably be expected to adversely affect the Bank or any of its affiliates or result in any liability to the Bank, it shall furnish copies of such material, as modified or amended, to the Bank and shall give reasonable consideration to the Bank's and the Bank's counsel's comments, if any, thereon. If the Company uses or permits the use of any such Transaction Disclosure Material or files any such material with the Commission or any other Governmental Authority or amend or modify such material (i) that has not been submitted to the Bank for the Bank's comments or (ii) that has been so submitted and with respect to which the Bank has made comments which have been communicated in writing to the Company, but which comments have not resulted in a response satisfactory to the Bank to reflect the Bank's comments, then the Bank shall be entitled to terminate this Agreement pursuant to Section 10.

**14. Representations and Agreements of the Company.** The Company represents and warrants to the Bank as of the date hereof and as of the Closing Date, and agrees with the Bank, that:

(a) the Company has taken all necessary corporate action to authorize each of the Transaction Documents and the consummation of the Transactions;

(b) each of the Transaction Agreements has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding agreement of the Company, except as may be limited by applicable bankruptcy, insolvency or similar laws relating to or affecting the rights and remedies of creditors or by equitable principles, and except as rights of indemnity or contribution may be limited by applicable law;

(c) (i) not later than the first day of the Election Period, the Company shall duly file with the Commission a Statement on Schedule TO (the "**Statement**") pursuant to Rule 13e-4 promulgated by the Commission under the Exchange Act, a copy of which Statement (including the documents required to be filed as exhibits thereto) in the form in

which it is to be so filed has been furnished to the Bank; (ii) the Statement as so filed and as amended from time to time shall comply as to form in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder, except to the extent described in the No-Action Request Letter; and (iii) neither the Statement as filed or as amended from time to time nor any other Transaction Disclosure Material as filed or as amended or supplemented from time to time shall contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading, except that the Company makes no representation or warranty with respect to any statement contained in, or any omission from, any Transaction Disclosure Material based upon information furnished in writing by the Bank to the Company expressly for use therein;

(d) the consummation of the Option Transfer Program, the issuance by the Company of the shares of Common Stock to be issued upon exercise of the JPMorgan Options (the “**Option Shares**”) and the execution, delivery and performance by the Company of its obligations under the Transaction Agreements will not result in the violation of any law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority, except for such violations which would not reasonably be expected to materially and adversely affect or delay the Option Transfer Program and except to the extent described in the No-Action Request Letter;

(e) except as described in the Notice of Option Transfer Program, no Consent or other action of, or Filing with, any Governmental Authority is required in connection with the consummation of the Option Transfer Program, the issuance by the Company of the Option Shares, and the execution, delivery and performance by the Company of its obligations under the Transaction Agreements, except for the filing with the Commission of the Statement, the filing of the Registration Statement, the registration of the Option Shares under the Securities Act and such consents, approvals, authorizations, orders and registrations or qualifications which would not reasonably be expected to materially and adversely affect or delay the Option Transfer Program;

(f) the consummation of the Option Transfer Program, the issuance by the Company of the Option Shares, and the execution, delivery and performance by the Company of its obligations under the Transaction Agreements will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, except in the case of this clause (i) for such breaches, violations, defaults, liens, charges or encumbrances which would not reasonably be expected to materially and adversely affect or delay the Option Transfer Program and which would not result in any liability to the Bank or (ii) result in any violation of the provisions of the charter or by-laws of the Company;

(g) the Shares issuable upon the exercise of the JPMorgan Options have been duly authorized by the Company and validly reserved for issuance and, at the time of delivery to the Bank, such Shares will be issued and delivered in accordance with the provisions of this Agreement and will be validly issued, fully paid and non-assessable;

(h) the Company has no knowledge of any material fact or information concerning the Company or any of its subsidiaries, or the operations, assets, condition, financial or otherwise, or prospects of the Company or any of its subsidiaries, or any Eligible Options that is required to be made generally available to the public or to the holders of Participating Options and that has not been, or is not being, or will not be, made generally available to the public prior to the Election Deadline through the Transaction Disclosure Materials or otherwise; and

(i) the Option Transfer Program is effective to transfer and assign all right, title and interest in and to the Participating Options to the Bank and upon payment therefor pursuant to Section 5 hereof, the Bank will have acquired good and valid title to the JPMorgan Options free and clear of any lien or claim.

**15. Representations and Agreements of the Bank.** The Bank represents and warrants to the Company as of the date hereof and as of the Closing Date, and agrees with the Company, that:

(a) the Bank has taken all necessary corporate action to authorize each of the Transaction Agreements and the consummation of the transactions contemplated thereby;

(b) each of the Transaction Agreements has been duly authorized, executed and delivered by the Bank and is a valid and binding agreement of the Bank except as may be limited by applicable bankruptcy, insolvency or similar laws relating to or affecting the rights and remedies of creditors or by equitable principles;

(c) the execution and delivery of the Transaction Agreements and the consummation of the transactions contemplated thereby comply with all applicable requirements of Law, and no Consent or other action of, or Filing with any Governmental Authority is required in connection therewith, except for such Consents, other actions or Filings which would not reasonably be expected to materially and adversely affect or delay the Option Transfer Program; and

(d) the execution and delivery of the Transaction Agreements and the consummation of the transactions contemplated thereby do not conflict with, result in a breach of or constitute a default under, (i) the charter or by-laws of the Bank or (ii) any agreement, plan or instrument affecting the Bank or to which the Bank or any of its subsidiaries or affiliates is a party or by which any of them or any of their respective properties or assets is or may be bound, except in the case of this clause (ii) for such breaches, or defaults which would not reasonably be expected to materially and adversely affect or delay the Option Transfer Program.

**16. Opinions.** (a) The Company will deliver at Closing to the Bank an opinion, reasonably satisfactory to the Bank's counsel, of Preston Gates & Ellis LLP, counsel to the Company, to the effect that:

(i) the Company has taken all necessary corporate action to authorize each of the Transaction Documents and the consummation of the Transactions;

(ii) each of the Transaction Agreements has been duly authorized, executed and delivered by the Company and are valid and binding agreements of the Company, except as may be limited by applicable bankruptcy, insolvency or similar laws relating to or affecting the rights and remedies of creditors or by equitable principles, and except as rights to indemnity or contribution may be limited by applicable law;

(iii) the consummation of the Option Transfer Program, the issuance by the Company of the Option Shares, and the execution, delivery and performance by the Company of its obligations under this Agreement, the Confirmation and the Master Agreement will not, to the knowledge of such counsel, result in the violation of any applicable law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority except for such violations that would not be expected to materially and adversely affect or delay the Option Transfer Program and except to the extent described in the No-Action Request Letter;

(iv) except as described in the Notice of Option Transfer Program, no consent, approval, authorization, order, registration or qualification of or with any court or arbitrator or governmental or regulatory authority is required for the consummation of the Option Transfer Program, the issuance by the Company of the Option Shares, or the execution, delivery and performance by the Company of its obligations under this Agreement, the Confirmation and the Master Agreement, except for the filing with the Commission of the Statement, the filing of the Registration Statement, the registration of the Option Shares under the Securities Act and such consents, approvals, authorizations, orders and registrations or qualifications that would not be expected to materially and adversely affect or delay the Option Transfer Program;

(v) the consummation of the Option Transfer Program, the issuance by the Company of the Option Shares, and the execution, delivery and performance by the Company of its obligations under this Agreement, the Confirmation and the Master Agreement will not (1) result in any violation of the provisions of the charter or by-laws of the Company, or (2) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument which is an exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 2003;



(vi) the Statement (other than the financial statements and related schedules contained or incorporated by reference therein, as to which such counsel need express no opinion) at the time it was filed with the Commission and as amended from time to time through the Closing complied as to form in all material respects to the requirements of the Exchange Act, except to the extent described in the No-Action Request Letter;

(vii) Each document incorporated by reference in the Statement or any further amendment or supplement thereto made by the Company prior to Closing (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), at the time they were filed with the Commission, complied as to form in all material respects to the requirements of the Exchange Act;

(viii) the Option Shares have been duly authorized by the Company and, when issued in conformity with the terms and conditions of the JPMorgan Options and this Agreement, will be validly issued, fully paid and non-assessable; and

(ix) the Option Transfer Program is effective to transfer and assign all right, title and interest in and to the Participating Options to the Bank and upon payment therefor pursuant to Section 5 hereof, the Bank will have acquired good and valid title to the JPMorgan Options free and clear of any lien or claim.

The opinion of counsel described above shall be rendered to the Bank at the request of the Company and shall so state therein.

**17. Notice of Certain Events.** The Company shall advise the Bank promptly of (i) the occurrence of any event that could cause the Company to (A) withdraw or terminate the Option Transfer Program or (B) permit the Company to exercise any right pursuant to Section 8, (ii) the issuance of any comment or order or the taking of any other action by the Commission or any Governmental Authority concerning the Option Transfer Program, and (iii) any other information relating to the Option Transfer Program that the Bank may from time to time reasonably request.

**18. Hedging Reimbursement.** (a) (i) If the number of Clear Available Trading Days in the Averaging Period is less than 15 but no Averaging Period Deficiency occurs, the parties agree and acknowledge that in order to establish its initial “delta” hedge of its exposure to ownership of the JPMorgan Options, the Bank will sell a number of Shares during each of the Make-Up Days equal to a number of shares calculated by dividing the total number of Shares necessary to establish its initial delta hedge by fifteen (such sales, the “**Shortfall Sales**”).

(ii) Upon completion of the Shortfall Sales, the Bank shall determine, in consultation with the Company, the Make-Up Amount in good faith and notify the Company of such amount in the manner set forth in Section 25 hereof (the date on which such determination is made, the “**Shortfall Determination Date**”), such notification to include a written explanation by the Bank of the basis for the calculations made hereunder.

(iii) On the third Business Day immediately following the Shortfall Determination Date, the Company shall deliver to the Bank a cash payment, by wire transfer of immediately available funds to an account designated by the Bank, in an amount equal to the Make-Up Amount (*provided* that if such Make-Up Amount is negative, the Bank shall deliver to the Company an amount in cash equal to the absolute value of such Make-Up Amount).

(b) (i) In the event that this Agreement is terminated pursuant to Sections 10(a)(ii) through 10(a)(vi), the Bank shall determine the Unwind Amount in good faith and notify the Company of such amount in the manner set forth in Section 25 hereof (such date, the “**Unwind Determination Date**”), such notification to include a written explanation by the Bank of the basis for the calculations made hereunder.

(ii) On the third Business Day immediately following the Unwind Determination Date, the Company shall deliver to the Bank a cash payment, by wire transfer of immediately available funds to an account designated by the Bank, in an amount equal to (x) in the case of termination pursuant to Sections 10(a)(iii) through 10(a)(vi), the Unwind Amount and (y) in the case of termination pursuant to Section 10(a)(ii), the Unwind Amount *divided* by two (*provided* that, in either case, if such Unwind Amount is negative, the Bank shall deliver to the Company an amount in cash equal to the absolute value of such Unwind Amount in case of termination pursuant to clause (x), or of such Unwind Amount *divided* by two, in case of termination pursuant to clause (y)).

**19. Liability; Indemnification.** (a) The Bank shall have no liability (in tort, contract or otherwise) to the Company for any losses, claims, damages, liabilities or expenses arising from the Bank’s own acts in performing the Bank’s obligations hereunder or otherwise in connection with the Option Transfer Program and the JPMorgan Options, except for any such losses, claims, damages, liabilities or expenses primarily attributable to the Bank’s bad faith or gross negligence or the Bank’s breach of its obligations under this Agreement or any other Transaction Agreement. The Bank shall act as an independent contractor, and nothing herein contained shall constitute the Bank an agent of the Company.

(b) The Company hereby agrees to hold the Bank harmless and to indemnify the Bank (including any of the Bank’s affiliated companies and any director, officer, agent or employee of the Bank or any such affiliated company) and any director, officer or other person controlling (within the meaning of Section 20(a) of the Exchange Act) the Bank (including any of the Bank’s affiliated companies) (collectively, “**Indemnified Persons**”) from and against any and all losses, claims, damages, liabilities or expenses (whether in contract, tort or otherwise, and including, without limitation, fees and disbursements of counsel) whatsoever (as incurred or suffered and including, but not limited to, any and all expenses reasonably incurred in investigating, preparing or defending any litigation or

proceeding, commenced or threatened, and whether or not the Bank or any other Indemnified Person shall be a party thereto (collectively, the “Losses”)) arising out of, relating to or in connection with (c) any untrue statement or alleged untrue statement of a material fact contained in any Transaction Disclosure Material, or any omission or alleged omission to state in any such material a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading, (d) any withdrawal or termination by the Company of the Option Transfer Program or failure by the Company to comply with the terms of the Transaction Disclosure Materials and this Agreement, including without limitation the terms thereof set forth in the Notice of Option Transfer Program, (e) any breach by the Company of any representation or warranty or failure to comply with any of the agreements contained herein and (f) activities performed or services furnished pursuant to this Agreement or the certain letter dated October 9, 2003 or otherwise arising out of, relating to or in connection with the Option Transfer Program; except in the case of clause (iv) above (A) for any Losses arising out of, relating to or in connection with any activities of a JPMorgan Entity described in Section 6 hereof and (B) for any such Loss that is determined by final and nonappealable judgment of a court of competent jurisdiction to have resulted primarily from the Bank’s bad faith or gross negligence or a breach by the Bank of its obligations under this Agreement or any other Transaction Agreement and except in the case of clause (i) above for any such Loss that arises out of, relates to or in connection with (x) any untrue statement or alleged untrue statement of a material fact contained in any Transaction Disclosure Material or (y) any omission to state in any such material a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading, if in any such case such statement or omission was made in reliance upon and in conformity with information furnished in writing by the Bank to the Company expressly for use therein. The foregoing indemnity shall be in addition to any liability that the Company might otherwise have to the Bank and such other Indemnified Persons.

(c) If a claim is made against any Indemnified Person, such Indemnified Person shall notify the Company promptly after any written assertion of such claim threatening to institute an action or proceeding with respect thereto and shall notify the Company promptly of any action commenced against such Person within a reasonable time after such Person shall have been served with a summons or other first legal process giving information as to the nature and basis of the claim. Failure so to notify the Company shall not, however, relieve the Company from any liability that it may have on account of this indemnity or otherwise except to the extent the Indemnified Person shall have been materially prejudiced in any material respect by such failure. The Company shall be entitled to participate at its own expense in the defense of any such litigation or proceeding but such defense shall be conducted by counsel to such Indemnified Person. The Company shall, upon the request of such Indemnified Person, assume the defense of any such litigation or proceeding including the payment for the fees and expenses of counsel, and in the case of any such request such defense shall be conducted by counsel reasonably satisfactory to the Bank. In any such litigation or proceeding the defense of which the Company shall have so assumed, any Indemnified Person shall have the right to participate in such litigation or proceeding and to retain its own counsel, but the fees and expenses of

such counsel shall be at the expense of such Indemnified Person unless (h) the Company and the Indemnified Person shall have mutually agreed to the retention of such counsel or (i) the named parties to any such proceeding (including any impleaded parties) include one or both of (x) the Company and (y) the Indemnified Person and representation of both parties by the same counsel in the opinion of counsel to such Indemnified Person would be inappropriate due to actual or potential differing interests between them. It is understood that the Company shall not, in connection with any litigation or proceeding or related litigation or proceedings in the same jurisdiction, be liable under this agreement for the fees and expenses of more than one separate firm for all such Indemnified Persons. Such firm shall be designated in writing by the Bank. The Company shall not be liable for any settlement of any litigation or proceeding effected without the written consent of the Company, but if settled with such consent or if there be a final judgment for the plaintiff, the Company agrees, subject to the provisions of this Section 19(c), to indemnify the Indemnified Person from and against any loss or liability by reason of such settlement or judgment.

(d) The indemnity agreements contained in this Section 19(d) and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect regardless of (i) any failure to commence, or the withdrawal, termination or consummation of, the Option Transfer Program or the termination of this agreement, (ii) any investigation made by or on behalf of any Indemnified Person and (iii) any withdrawal or termination by the Bank pursuant to Section 10 or otherwise.

**20. Severability.** If any provision hereof shall be determined to be invalid or unenforceable in any respect, such determination shall not affect such provision in any other respect or any other provision hereof, which shall remain in full force and effect.

**21. Counterparts; Amendment.** This Agreement may be executed in one or more separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Neither this Agreement nor any other Transaction Agreement, nor any provision hereof or thereof, may be amended or any such provisions waived except in writing signed by the party sought to be bound.

**22. Binding Effect.** This Agreement, including any right to indemnity or contribution hereunder, shall inure to the benefit of and be binding upon the Company, the Bank and the other Indemnified Persons, and their respective successors and assigns. Nothing in this Agreement or any other Transaction Agreement is intended, to, or shall give to any other person any third-party beneficiary or other right of any kind with respect to, by virtue of or under this Agreement or any other Transaction Agreement. Notwithstanding any other provision of any Transaction Document to the contrary requiring the Bank to purchase, sell, receive or deliver any shares of the Common Stock or other securities (including, for the avoidance of doubt, the Participating Options) to or from the Company or any employee, the Bank may designate any of its affiliates to purchase, sell, receive or deliver such shares or other securities or otherwise to perform the Bank's obligations in respect of the Transactions and any such designee may assume such obligations, and the Bank shall be discharged of its obligations to the Company to the extent of any such performance and the Bank may otherwise, from time to time, without the Company's consent, assign any or all of its rights and delegate any or all of its obligations hereunder to any of its affiliates.

**23. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, and all rights and remedies shall be governed by said laws, without regard to conflict of laws principles. Each of the parties hereto agree (a) that this Agreement involves at least \$100,000 and (b) that this Agreement has been entered into by the parties hereto in express reliance upon 6 Del.C. §2708. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the Transactions shall be brought in a federal court located in the State of Delaware or a Delaware state court. Each of the parties hereby consents to exclusive personal jurisdiction in any such action, suit or proceeding brought in any such state or federal court (and of the appropriate appellate courts therefrom) and irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient form. Each party agrees that service of process on such party as provided in Section 25 shall be deemed effective service of process on such party. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS.

**24. Entire Agreement.** This Agreement, together with the other Transaction Agreements, constitute the entire agreement between the parties hereto and supersedes all prior agreements, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof. The Bank is entering into this Agreement through its London branch. Notwithstanding the foregoing, the Bank represents to the Company that the obligations of the Bank are the same as if it had entered into this Agreement through its head or home office in New York.

**25. Notices.** Except as otherwise provided in this Agreement, all notices and other communications (other than communications pursuant to Sections 2 and 3) required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally or by facsimile transmission to the parties hereto as follows:

- (a) If to the Company:
  - Microsoft Corporation
  - One Microsoft Way
  - Redmond, WA 98052
  - Fax: (425) 936-7329
  - Attn: John Seethoff, Deputy General Counsel, Finance and Operations
  - Attn: Brent Callinicos, Treasurer
  - Attn: George Zinn, Assistant Treasurer
  - Attn: Norm Lee, Assistant Treasurer

or at such other address or addresses as may later have been furnished in writing by the Company to the Bank, with a copy to:

Preston Gates & Ellis LLP  
925 Fourth Avenue, Suite 2900  
Seattle, WA 98104-1158  
Fax: (206) 623-7022  
Attn: Richard B. Dodd

(b) If to the Bank:

JPMorgan Chase Bank  
277 Park Avenue, 11th Floor  
New York, New York, 10172  
Fax: 212-622-0105  
Attn: EDG Corporate Marketing, Steve Roti

or at such other address or addresses as may later have been furnished in writing by the Bank to the Company, with a copy to:

Davis Polk & Wardwell  
450 Lexington Avenue  
New York, New York 10017  
Fax: (212) 450-3800  
Attention: Peter R. Douglas

Except as otherwise provided in this Agreement, all such notices and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a Business Day, in the place of receipt. Otherwise, any such notice, request or other communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

MICROSOFT CORPORATION

By: \_\_\_\_\_ /s/ BRENT CALLINICOS

Name: Brent Callinicos  
Title: Corporate Vice President & Treasurer

JPMORGAN CHASE BANK

By: \_\_\_\_\_ /s/ STEPHEN L. ROTI

Name: Stephen L. Roti

Title: Vice President



**Call Option Confirmation: Physically-settled only, American-style.**

JPMorgan Chase Bank  
277 Park Avenue  
New York, NY 10172  
(212) 622-5270

December [·], 2003

Microsoft Corporation  
One Microsoft Way  
Redmond, Washington 98052-6399

Attention: Mr. Brent Callinicos, Corporate Vice President and Treasurer  
Tel: (425) 706-6738  
Fax: (425) 936-7329

**Re: Call Option Transaction Confirmation**

Outlined below are the principal terms and conditions for the Transaction (the **“Transaction”**) that you (the **“Issuer”**) are entering into with JPMorgan Chase Bank (**“JPMorgan”**). This Confirmation shall supplement, form a part of and be subject to the 1992 ISDA Master Agreement (Multicurrency-Cross Border) dated as of January 22, 1997 between the Issuer and JPMorgan, as amended and supplemented from time to time (the **“Agreement”**), between us together with any related schedules and security or collateral agreements, if any.

The purpose of this letter agreement (this **“Confirmation”**) is to confirm the terms and conditions of the above referenced Transaction entered into between JPMorgan and you on the Trade Date specified below. This Confirmation shall supersede all or any prior written or oral agreements in relation to the Transaction. This Confirmation is subject to, and incorporates, the 2000 ISDA Definitions (including the Annex thereto, the **“2000 Definitions”**) and the 2002 ISDA Equity Derivatives Definitions (the **“Equity Definitions”** and, together with the 2000 Definitions, the **“Definitions”**), each as published by the International Swaps and Derivatives Association, Inc. (**“ISDA”**). This Confirmation constitutes a **“Confirmation”** as referred to in the Agreement. All provisions contained in the Agreement govern this Confirmation except as expressly modified below. In the event of any inconsistency between the Equity Definitions and the 2000 Definitions, the Equity Definitions shall govern. In the event of any inconsistency between the Definitions or the Agreement, as the case may be, and this Confirmation, this Confirmation shall govern. The terms and conditions of this Confirmation supersede any and all prior written or oral agreements in relation to the Transaction. As set forth in the Program Agreement, this Confirmation amends and restates the terms of certain options previously issued by the Issuer and not previously subject to the Agreement. The Issuer acknowledges and agrees that upon execution, this Confirmation, without any further action or the execution of any further documents or agreements, and notwithstanding any defect or lack of effectiveness of any assignment or transfer of title to any Participating Options (as such term is defined in the Program Agreement (as such term is defined below)) from the Participating Holders (as such term is defined in the Program Agreement), shall be a valid, binding and enforceable obligation of the Issuer to JPMorgan on the terms set forth herein.

The parties are executing this Confirmation pursuant to the terms of the Program Agreement (the **“Program Agreement”**) dated as of October 9, 2003 between the Issuer and JPMorgan.

**1. ECONOMIC TERMS:**

## General Terms:

Trade Date:	December [-], 2003
Option Style:	American
Option Type:	Call
Seller:	The Issuer
Buyer:	JPMorgan
Shares:	The common stock, par value USD0.00000625 per share, of the Issuer, or security entitlements in respect thereof.
Tranche:	The Transaction will be divided into individual Tranches with the Number of Options, Strike Prices and Expiration Dates set forth on Schedule A attached hereto. For purposes of this Confirmation, the Agreement and the Definitions, each Tranche will be considered a separate Transaction under the Agreement, and all Tranches shall be referred to herein collectively as the Transaction.
Number of Options:	For each Tranche, the Number of Options for such Tranche as set forth on Schedule A attached hereto.
Strike Price:	For each Tranche, the Strike Price for such Tranche as set forth on Schedule A attached hereto.
Exchange:	The Nasdaq National Market of the Nasdaq Stock Market, Inc.
Related Exchanges:	The Chicago Board Options Exchange and the Archipelago Exchange.
Procedures for Exercise:	
Expiration Time:	The Scheduled Closing Time
Expiration Date:	For each Tranche, the Expiration Date for such Tranche as set forth on Schedule A attached hereto.
Multiple Exercise:	Applicable
Minimum Number of Options:	100,000
Maximum Number of Options:	For each Tranche, the Number of Options for such tranche.
Automatic Exercise:	Applicable
Reference Price:	The Official NASDAQ Closing Price (NOCP).
Settlement Terms:	
Physical Settlement:	Applicable
Settlement Currency:	USD

Dividends:	As provided in Section 5 (a) herein.
Adjustments:	
Method of Adjustment:	Calculation Agent Adjustment; <i>provided</i> that Section 5(a) shall apply in lieu of Calculation Agent Adjustment for all dividends other than dividends (“ <b>Share Dividends</b> ”) of the types described in clauses (i), (ii)(A), (ii)(B) and (ii)(C) of the definition of Potential Adjustment Event contained in Section 11.2(e) of the Equity Definitions.
Extraordinary Events:	
Consequences of Merger Events:	
Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Cancellation and Payment (Calculation Agent Determination)
Share-for-Combined:	Component Adjustment
Tender Offer:	Applicable
Consequences of Tender Offers:	
Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Cancellation and Payment (Calculation Agent Determination)
Share-for-Combined:	Component Adjustment
Composition of Combined Consideration:	Not Applicable
Nationalization, Insolvency or Delisting:	Cancellation and Payment (Calculation Agent Determination)
Additional Disruption Events:	
Change in Law:	Applicable; <i>provided</i> that in the event of a Change in Law that requires any Shares that the Issuer delivers to JPMorgan in connection with the Transaction (“ <b>Settlement Shares</b> ”) to be registered under the Securities Act of 1933, as amended, the parties hereto agree to negotiate with each other in good faith to amend, restructure or supplement this Confirmation so that it is no longer illegal for JPMorgan to hold, acquire and dispose of the Settlement Shares and JPMorgan does not incur a materially increased cost in performing its obligations hereunder or in connection herewith.
Failure to Deliver:	Applicable
Insolvency Filing:	Applicable
Hedging Disruption:	Not Applicable

Increased Cost of Hedging:

Not Applicable

Loss of Stock Borrow:

Not Applicable

Increased Cost of Stock Borrow:

Not Applicable

Determining Party:

Calculation Agent

Non-Reliance:

Applicable

Agreements and Acknowledgments Regarding Hedging Activities:

Applicable

Additional Acknowledgments:

Applicable

2. Calculation Agent:

JPMorgan Securities Inc.; *provided* that the Calculation Agent shall make all calculations in consultation with the Issuer; and *provided further* that the Calculation Agent shall, not later than the third Business Day following receipt of a written request by the Issuer, provide the Issuer with a written explanation of the basis for any calculation or determination made hereunder.

3. Account Details:

JPMorgan Chase Bank, New York  
ABA: 021 000 021  
Favor: JPMorgan Chase Bank, London  
A/C: 0010962009  
CHASUS33

Account for payments to JPMorgan: DTC 060

Account for delivery of Shares to JPMorgan:

Account for payments to the Issuer:

4. Address for notices or communications to Issuer:

Microsoft Corporation  
One Microsoft Way  
Redmond, Washington 98052-6399  
Attention: Treasurer  
Telephone No.: 425-706-6738  
Facsimile No.: 425-936-7329

Address for notices or communications to JPMorgan:

JPMorgan Chase Bank  
277 Park Avenue, 11th Floor  
New York, New York, 10172  
Attention: EDG Corporate Marketing (Steve Roti)  
Telephone No. 212-622-5270  
Telecopy No. 212-622-0105

## 5. Other Provisions:

- (a) **Dividends.** For each Tranche, if (i) at any time after the Trade Date during any calendar quarter, an ex-dividend date for a dividend with respect to the Shares other than a Share Dividend occurs (regardless of when such dividend is paid), and the amount or value of such dividend (as determined by the Calculation Agent) is not equal to the Regular Dividend Amount for such dividend on a per share basis, or (ii) as of the last day of the fourth calendar quarter of any year, no ex-dividend date for a dividend with respect to the Shares other than a Share Dividend shall have occurred during such fourth quarter, then in either case the Strike Price for such Tranche shall be adjusted as of such ex-dividend date or such last day, as the case may be (the “**Adjustment Date**”), by an amount determined by the Calculation Agent so that the Pre-Dividend Valuation of such Tranche equals the Post-Dividend Valuation of such Tranche. Any adjustment pursuant to this paragraph 5(a) shall be rounded to four decimal places.

“**Regular Dividend Amount**” means, for the first dividend that is not a Share Dividend and for which the ex-dividend date occurs during the fourth calendar quarter of any year, USD0.16, or, for any other dividend, USD0.00.

“**Pre-Dividend Valuation**” of any Tranche means the fair value, as determined by the Calculation Agent using the Black-Scholes pricing methodology, of such Tranche based on the “Pre-Dividend Inputs” set forth below.

“**Post-Dividend Valuation**” of any Tranche means the fair value, as determined by the Calculation Agent using the Black-Scholes pricing methodology, of such Tranche based on the “Post-Dividend Inputs” set forth below.

“**Trading Day**” means a Scheduled Trading Day that is not a Disrupted Day.

**Pre-Dividend Inputs**

Stock Price:	The Official NASDAQ Closing Price (NOCP) of the Shares on the Exchange on the Trading Day prior to the relevant Adjustment Date (the “ <b>Stock Price</b> ”).
Strike Price:	The Strike Price for such Tranche as of such Adjustment Date.
Dividend Yield:	USD0.16 <i>divided by</i> the Stock Price (the “ <b>Dividend Yield</b> ”).
Volatility:	The implied bid volatility displayed on Bloomberg Screen MSFT UQ equity OMON, utilizing US Dollar swap rates and actual dividends, for a listed option with the same strike price and maturity as such Tranche, or, if no such option appears on such Screen, an implied bid volatility determined by the Calculation Agent by linear interpolation between the implied bid volatilities so displayed for the two listed call options that do so appear with strike prices most proximate to the Strike Price for such Tranche (or, if the Strike Price for such Tranche is greater than the strike price for the listed call option with the highest strike price that so appears and that, in the reasonable determination of the Calculation Agent, has significant liquidity, the implied bid volatility so displayed for such option) and between the two listed call options that do so appear with maturities most proximate to the Expiration Date for such Tranche (or, if the Expiration Date for such Tranche is later than the maturity for the listed call option with the latest maturity that so appears, the implied bid volatility displayed for such option) (the “ <b>Volatility</b> ”).

Interest Rate: For any Tranche, the amount (the “**Interest Rate**”) determined by the following equation:

$$\text{Discount Factor} = 1 / [e^{(\text{Interest Rate} * N)}]$$

where:

N = The number of days during the period beginning on and including such Adjustment Date to but excluding the Expiration Date for such Tranche, *divided by* 365.

Discount Factor = The value that a counterparty would pay on such Adjustment Date for the right to receive USD1.00 on the Expiration Date for such Tranche, expressed as a percentage, as determined by the Calculation Agent by reference to the US Dollar, British Bankers’ Association LIBOR rates, as displayed by BBAM Office BBA LIBOR Fixings, and the US Dollar swap curve on such Adjustment Date as displayed on Bloomberg Screen I52.

Maturity: The Expiration Date for such Tranche (the “**Maturity**”).

**Post-Dividend Inputs**

Stock Price: The Stock Price *minus* the Dividend Differential.

Strike Price: The Strike Price for such Tranche as of such Adjustment Date, as adjusted pursuant to this Paragraph 5(a).

Dividend Yield: The Dividend Yield.

Volatility: The Volatility.

Interest Rate: The Interest Rate.

Maturity: The Maturity.

“**Dividend Differential**” means, for any dividend for which an adjustment is being made pursuant to this paragraph 5(a), the difference equal to the amount or value of such dividend (as determined by the Calculation Agent) *minus* the Regular Dividend Amount for such dividend.

(b) Representations Regarding Shares. (i) The Issuer shall reserve and keep available for issuance to JPMorgan upon settlement or any termination of the Transaction a number of Shares at least equal to the aggregate sum for all Tranches of the product of the Number of Options and the Option Entitlement.

- (ii) The Issuer agrees that any Settlement Shares shall not bear any restrictive legend and that such Settlement Shares shall be deposited in, and the delivery thereof shall be effected through the facilities of, The Depository Trust Company.
- (c) Transfer and Assignment. The Issuer may not transfer any of its rights or obligations under the Transaction. JPMorgan may not transfer any of its rights or obligations under the Transaction except to an affiliate (as such term is defined in Rule 144(a)(1) under the Securities Act of 1933, as amended) by prior notice to the Issuer.
- (d) JPMorgan London Branch. JPMorgan is entering into the Transaction through its London branch. Notwithstanding the foregoing, JPMorgan represents to the Issuer that the obligations of JPMorgan are the same as if it had entered into the Transaction through its head or home office in New York.
- (e) CEA Representation. The Issuer is an “eligible contract participant” (as such term is defined in Section 1(a)(12) of the Commodity Exchange Act, as amended).
- (f) JPMorgan Designation. Notwithstanding any other provision herein to the contrary requiring or allowing JPMorgan to purchase, sell, receive or deliver any shares or other securities to or from the Issuer, JPMorgan may designate any of its affiliates to purchase, sell, receive or deliver such shares or other securities and otherwise to perform JPMorgan’s obligations in respect of the Transaction and any such designee may assume such obligations. JPMorgan shall be discharged of its obligations to the Issuer to the extent of any such performance.
- (g) Securities Contract. The parties hereto intend that (a) JPMorgan be a “financial institution” within the meaning of Section 101(22) of Title 11 of the United States Code (the “**Bankruptcy Code**”), (b) this Confirmation (as such is referred to in, and supplements, forms part of, and is subject to, the Agreement) be a “securities contract,” as such term is defined in Section 741(7) of the Bankruptcy Code, (c) each and every transfer of funds, securities and other property under this Confirmation (as such is referred to in, and supplements, forms part of, and is subject to, the Agreement) be a “settlement payment” or a “margin payment,” as such terms are used in Sections 362(b)(6) and 546(e) of the Bankruptcy Code, (d) the rights given to JPMorgan hereunder upon an Event of Default, Termination Event or Early Termination Date constitute the rights to cause the liquidation of a securities contract and to set off mutual debts and claims in connection with a securities contract, as such terms are used in Sections 555 and 362(b)(6) of the Bankruptcy Code and (e) any or all obligations that either party has with respect to this Confirmation or the Agreement constitute property held by or due from such party to margin, guaranty or settle obligations of the other party with respect to the transactions under the Agreement (including the Transaction) or any other agreement between such parties.
- (h) Waiver of Jury Trial. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to the Transaction, this Confirmation, or the Agreement. Each party (i) certifies that no representative, agent or attorney of the other party has represented, expressly or otherwise, that such other party would not, in the event of such a suit, action or proceeding, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other party have been induced to enter into the Transaction by, among other things, the mutual waivers and certifications herein.

- (i) Limit on Beneficial Ownership. Notwithstanding any other provisions hereof, JPMorgan shall not be entitled to receive Shares hereunder (whether in connection with exercise of the Transaction or otherwise) to the extent (but only to the extent) that such receipt would result in J.P. Morgan Chase & Co. directly or indirectly beneficially owning (as such term is defined for purposes of Section 13(d) of the Exchange Act) at any time in excess of 9.9% of the outstanding Shares. Any purported delivery hereunder shall be void and have no effect to the extent (but only to the extent) that such delivery would result in J.P. Morgan Chase & Co. directly or indirectly so beneficially owning in excess of 9.9% of the outstanding Shares. If any delivery owed to JPMorgan hereunder is not made, in whole or in part, as a result of this provision, the Issuer's obligation to make such delivery shall not be extinguished and the Issuer shall make such delivery as promptly as practicable after, but in no event later than one Currency Business Day after, JPMorgan gives notice to the Issuer that such delivery would not result in J.P. Morgan Chase & Co. directly or indirectly so beneficially owning in excess of 9.9% of the outstanding Shares.
- (j) No Repurchase. The Issuer agrees that it shall not repurchase any Shares if, immediately following such repurchase, the Number of Options for all Tranches comprising the Transaction would be equal to or greater than 8% of the number of then outstanding Shares.
- (k) Alternative Calculations and Payment on Early Termination and on Certain Extraordinary Events. If, in respect of any Transactions relating to Shares of the Issuer ("**Issuer Share Transactions**"), the Issuer shall owe JPMorgan any amount pursuant to (i) Sections 12.7 or 12.9 of the Equity Definitions (except in the event of an Insolvency, Nationalization, Tender Offer or Merger Event, in each case, in which the consideration or proceeds to be paid to holders of Shares as a result of such event consists solely of cash) or (ii) pursuant to Section 6(d)(ii) of the Agreement (except in the event of an Event of Default in which the Issuer is the Defaulting Party or a Termination Event in which the Issuer is the Affected Party, other than an Event of Default of the type described in Section 5(a)(iii), (v), (vi) or (vii) of the Agreement or a Termination Event of the type described in Section 5(b)(i), (ii), (iii), (iv), or (v) of the Agreement that, in the case of either such an Event of Default or such a Termination Event, resulted from an event or events outside the Issuer's control) (a "**Payment Obligation**"), the Issuer may, in its sole discretion, satisfy any such Payment Obligation by the Share Termination Alternative (as defined below) by giving irrevocable telephonic notice to JPMorgan, confirmed in writing within one Currency Business Day, between the hours of 9:00 a.m. and 4:00 p.m. New York local time on the Announcement Date or Early Termination Date, as applicable ("**Notice of Share Termination**"). Upon timely giving of Notice of Share Termination, the following provisions shall apply:

Share Termination Alternative:

Applicable and means that the Issuer shall deliver to JPMorgan the Share Termination Delivery Property on the date (the "**Share Termination Payment Date**") on which the Payment Obligation would otherwise be due, in satisfaction of the Payment Obligation, in the manner reasonably requested by JPMorgan, free of payment.

Share Termination Delivery Property:

A number of Share Termination Delivery Units, as calculated by the Calculation Agent, equal to the Payment Obligation divided by the Share Termination Unit Price. The Calculation Agent shall adjust the Share Termination Delivery Property by replacing any fractional portion of a security therein with an amount of cash equal to the value of such fractional security based on the values used to calculate the Share Termination Unit Price.



Share Termination Unit Price:

The value to JPMorgan of property contained in one Share Termination Delivery Unit on the date such Share Termination Delivery Units are to be delivered as Share Termination Delivery Property, as determined by the Calculation Agent.

Share Termination Delivery Unit:

In the case of a Extraordinary Event (other than an Insolvency, Nationalization, Tender Offer or Merger Event), Termination Event or Event of Default, one Share or, in the case of an Insolvency, Nationalization, Merger Event or a Tender Offer, a unit consisting of the number or amount of each type of property received by a holder of one Share (without regard to any requirement to pay cash or other consideration in lieu of fractional amounts of any securities) in such Nationalization, Insolvency, Tender Offer or Merger Event, as the case may be. If a Share Termination Delivery Unit consists of property other than cash or New Shares, the Calculation Agent will replace such property with cash, New Shares or a combination thereof as components of a Share Termination Delivery Unit in such amounts, as determined by the Calculation Agent, as shall have a value equal to the value of the property so replaced. If such Insolvency, Nationalization, Merger Event or Tender Offer involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash.

Failure to Deliver:

Applicable

Other applicable provisions:

If Share Termination Alternative is Applicable, the provisions of Sections 9.8, 9.9, 9.10, 9.11 and 9.12 of the Equity Definitions will be applicable, except that all references in such provisions to "Physically-Settled" shall be read as references to "settled by Share Termination Alternative" and all references to "Shares" shall be read as references to "Share Termination Delivery Units".

- (l) Status of Claims in Bankruptcy. JPMorgan acknowledges and agrees that this Confirmation is not intended to convey to JPMorgan rights with respect to the Transaction that are senior to the claims of common stockholders in any U.S. bankruptcy proceedings of the Issuer; *provided* that nothing herein shall limit or shall be deemed to limit JPMorgan's right to pursue remedies in the event of a breach by the Issuer of its obligations and agreements with respect to the Transaction; and *provided further* that nothing herein shall limit or shall be deemed to limit JPMorgan's rights in respect of any transactions other than the Transaction.
- (m) No Collateral. Notwithstanding any provision of the Agreement, or any other agreement between the parties, to the contrary, the obligations of the Issuer under the Transaction are not secured by any collateral. Without limiting the generality of the foregoing, if the Agreement, or any other agreement between the parties, includes an ISDA Credit Support Annex, or other agreement pursuant to which the Issuer collateralizes obligations to JPMorgan, then the obligations of the Issuer hereunder will not be considered to be obligations under such Credit Support Annex, or other agreement pursuant to which Counterparty collateralizes obligations to JPMorgan, and the Transaction shall be disregarded for purposes of calculating any Exposure, Market Value or similar term thereunder.
- (n) No Netting or Set-off. Any provision in the Agreement with respect to (i) the netting of obligations of the Issuer or (ii) the satisfaction of the Issuer's payment obligations to the extent of JPMorgan's payment obligations to the Issuer in the same currency and in the same Transaction (including, without limitation Section 2(c) thereof), in each case as applied solely to this Transaction, shall not apply to the Issuer and, for the avoidance of doubt, the Issuer shall fully satisfy such payment obligations notwithstanding any payment obligation to the Issuer by JPMorgan in the same currency and in the same Transaction. In calculating any amounts under Section 6(e) of the Agreement, notwithstanding anything to the contrary in the Agreement, clause (i) of the foregoing sentence shall apply as follows: (1) separate amounts shall be calculated as set forth in such Section 6(e) with respect to (a) Issuer Share Transactions and (b) all other Transactions, and (2) such separate amounts shall be payable pursuant to Section 6(d)(ii) of the Agreement.
- (o) Early Termination. For purpose of Section 6(e) of the Agreement, "Second Method" and "Loss" will apply to the Transaction.
- (p) Notices. Part 4, Section (2) of the Schedule shall not apply to the Transaction.
- (q) Netting of Payments. Part 4, Section (3) of the Schedule shall not apply to the Transaction.
- (r) Set-Off. Part 5, Section (4) of the Schedule shall not apply to the Transaction.
- (s) Calculation Agent. Part 5, Section (5) of the Schedule shall not apply to the Transaction.
- (t) FX Transactions and Currency Options. Part 6 of the Schedule shall not apply to the Transaction.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing the copy of this Confirmation enclosed for that purpose and returning it to us or by sending to us a letter or telex substantially similar to this letter, which letter or telex sets forth the material terms of the Transaction to which this Confirmation relates and indicates your agreement to those terms.

Yours sincerely,

JPMORGAN CHASE BANK

By: \_\_\_\_\_

Name:

Title:

Confirmed as of the date first above written:

MICROSOFT CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

**MICROSOFT CORPORATION**  
**1997 SHARE APPRECIATION RIGHTS PLAN**

1. **Purpose of the Plan.** The purposes of this Share Appreciation Rights Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to such individuals, and to promote the success of the businesses of the Company and its Subsidiaries by aligning the financial interests of Employees with long-term shareholder value.

2. **Definitions.** As used herein, the following definitions shall apply:

(a) "**Board**" shall mean the Committee, if such Committee has been appointed, or the Board of Directors of the Company, if such Committee has not been appointed.

(b) "**Committee**" shall mean the Committee appointed by the Board of Directors.

(c) "**Closing Price**" shall mean the closing price as publicly reported by The Nasdaq Stock Market as of 4:00 p.m. New York time as of the applicable date provided herein or in an SAR grant, or such other principal trading market, time or date as may be designated by the Board.

(d) "**Company**," shall mean Microsoft Corporation, a Washington corporation and any successor thereto.

(e) "**Continuous Status as an Employee**" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, maternity leave, infant care leave, medical emergency leave, military leave, or any other leave of absence authorized in writing by a Vice President of the Company prior to its commencement.

(f) "**Disability**" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of twelve (12) months.

(g) "**Employee**" shall mean any person employed by the Company or any Subsidiary of the Company.

(h) "**Grant**" shall mean the written document setting forth the terms of the SARs.

(i) "**Grant Date Value**" shall mean the Closing Price of Microsoft Shares on the date specified in the Grant or such other value as may be designated by the Board which may be greater or less than the Closing Price on such date.

(j) "**Holder**" shall mean an Employee who receives an SAR.

(k) "**Microsoft Shares**" shall mean the common shares of Microsoft Corporation, provided that the number of shares shall be subject to adjustment in accordance with Section 6.

(l) "**Payment Date Value**" shall mean the Closing Price of the Microsoft Shares on each of the respective Valuation Dates provided for in a Grant.

(m) "**Plan**" shall mean this 1997 Share Appreciation Rights Plan, including any amendments thereto.

(n) "**SAR**" or "**SARs**" shall mean a share appreciation right or rights granted pursuant to this Plan.

(o) "**Subsidiary**" shall mean a subsidiary corporation, a limited liability company, partnership or other entity in which the Company controls fifty percent (50%) or more of the voting power or other controlling rights.

(p) "**Valuation Date**" shall mean one or more dates specified in the Grant as dates on which the difference between the Grant Date Value and the Payment Date Value is determined and on which payments may be made as provided in a Grant.

### **3. Administration of the Plan.**

(a) **Procedure.** The Plan shall be administered by the Board of Directors of the Company. The Board of Directors may appoint one or more Committees to administer the Plan on behalf of the Board of Directors, subject to such terms and conditions as the Board of Directors may prescribe. Once appointed, such Committees shall continue to serve until removed or otherwise changed by the Board of Directors.

(b) **Powers of the Board.** Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to determine, in accordance with the Plan, the Grant Date Value of each SAR; (ii) to determine the Employees to whom, and the time or times at which, SARs shall be granted and the number of SARs to be represented by each Grant; (iii) to interpret the Plan; (iv) to prescribe, amend, and rescind rules and regulations relating to the Plan; (v) to determine the terms and provisions of each SAR granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each SAR; (vi) to reduce the Grant Date Value of outstanding and unexercised SARs; (vii) to accelerate or defer (with the consent of the Holder) the Valuation Date of any SAR; (viii) to authorize any person to execute on behalf of the

Company any instrument required to effectuate the grant of an SAR previously granted by the Board; and (ix) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) **Effect of Board's Decision.** All decisions, determinations, and interpretations of the Board shall be final and binding on all Holders of any SARs granted under the Plan.

**4. Eligibility.**

SARs may be granted only to Employees. For avoidance of doubt, directors are not eligible to participate in the Plan unless they are full-time Employees.

5. **Non-Transferability of SARs.** The SAR may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and the payments provided for in a Grant may be received, during the lifetime of the Holder, only by the Holder; provided that the Board may permit further transferability, on a general or specific basis, and may impose conditions and limitations on any permitted transferability. No right or benefit hereunder shall in any manner be liable for or subject to to the debts, contracts, liabilities, or torts of the Holder.

6. **Adjustments Upon Changes in Capitalization or Merger.** Subject to any required action by the shareholders of Microsoft, the number of Microsoft Shares covered by each Grant, as well as the Grant Date Value of each such outstanding SAR, shall be proportionately adjusted for any increase or decrease in the number of issued Microsoft Shares resulting from a stock split, reverse stock split, stock dividend, combination, or reclassification of Microsoft Shares, or any other increase or decrease in the number of issued Microsoft Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, Grant Date Value of, or the number of SARs subject to, a Grant.

In the event of the proposed dissolution or liquidation of the Company, each SAR will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each SAR shall be assumed or an equivalent SAR or other right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless such successor corporation does not agree to assume the SAR or to substitute an equivalent SAR, in which case the Board, in lieu of such assumption or substitution, may make such other provision as the Board shall deem appropriate in its sole discretion.

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7. **Amendment and Termination of the Plan.**

(a) **Amendment and Termination.** The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.

(b) **Effect of Amendment or Termination.** Any such amendment or termination of the Plan shall not affect SARs already granted and such SARs shall remain in full force and effect as if this Plan had not been amended or terminated, unless the Holder accepts an amendment, termination or modification.