

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended June 30, 2000

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

For the Transition Period from _____ to _____

Commission File Number 0-14278

MICROSOFT CORPORATION

Washington
(State of incorporation)

91-1144442
(I.R.S. ID)

One Microsoft Way, Redmond, Washington 98052-6399

(425) 882-8080

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

None

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

Common Stock

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of common stock held by non-affiliates of the registrant as of September 8, 2000 was \$302,326,027,351.

The number of shares outstanding of the registrant's common stock as of September 8, 2000 was 5,355,376,816.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2000 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV. Portions of the definitive Proxy Statement dated September 8, 2000 to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held November 9, 2000 are incorporated by reference into Part III.

MICROSOFT CORPORATION

FORM 10-K

For The Fiscal Year Ended June 30, 2000

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PART I

Item 1. Business

General

Microsoft Corporation (the "Company" or "Microsoft") was founded as a partnership in 1975 and incorporated in 1981. Microsoft develops, manufactures, licenses, and supports a wide range of software products for a multitude of computing devices. Microsoft software includes scalable operating systems for servers, personal computers (PCs), and intelligent devices; server applications for client/server environments; knowledge worker productivity applications; and software development tools. The Company's online efforts include the MSN(TM) network of Internet products and services and alliances with companies involved with broadband access and various forms of digital interactivity. Microsoft also licenses consumer software programs; sells hardware devices; provides consulting services; trains and certifies system integrators; and researches and develops advanced technologies for future software products.

Microsoft's business strategy emphasizes the development of a broad line of software products for information technology (IT) professionals, knowledge workers, developers, and consumers, marketed through multiple channels of distribution. The Company is divided into three main areas: the Business Divisions, the Sales, Marketing, and Support Group, and the Operations Group.

The Business Divisions work in close partnership in order to create powerful software services and solutions built around the Internet, Windows, and new devices. Each division is responsible for the product planning, development, strategy, and in some cases, marketing strategies for their respective customer segments. The product segments, based on these business divisions, are the Windows(R) Platforms segment, the Business Productivity Applications and Developer segment, and the Consumer and Other segment.

The Windows Platforms segment contains the Windows Division and the Windows Digital Media Division. The Windows Division develops PC and server platforms required to run applications and services and to deliver the connectivity, management services and infrastructure for all types of users. The Windows Division builds platforms for enterprise, dotcoms, small businesses, and consumers. The Windows Digital Media Division develops digital media technology and services for Windows platforms available across all types of devices, networks, and services.

The Productivity Applications and Developer segment has two primary divisions, the Business Productivity Group and the Developer Group. The Business Productivity Group creates desktop and server software applications and solutions for the knowledge workers and small businesses. The Developer Group builds architecture and development of our tools and related platform technologies for software developers.

The Consumer and Other segment includes the Consumer Group. The Consumer Group provides Internet services and creates and markets productivity programs, learning and entertainment products, and hardware peripherals for consumers. For financial reporting, revenue from Microsoft Press, consulting, and certification of system integrators is included in this segment.

See notes to financial statements for financial information regarding segment reporting.

Microsoft has a research lab dedicated to creating new technology and converting problems into tangible solutions that Microsoft developers can incorporate into products to meet customers' needs.

The Sales, Marketing, and Support Group is responsible for building long-term business relationships with original equipment manufacturers (OEMs), enterprises, small- and medium-sized businesses, application developers, educational institutions, and consumers. Enterprises are offered tailored license programs, enterprise-wide support, consulting services, and other specialized services. The group contains the Marketing Division, which is responsible for domestic execution of integrated marketing campaigns and similar worldwide initiatives;

and developing expertise in public relations, advertising, customer loyalty, research, and events. The group also manages the channels that serve customers by working with OEMs, distributors, and resellers. In addition to the OEM channel, Microsoft has three major geographic sales organizations: the South Pacific and Americas; Europe, Middle East, and Africa; and Asia. The Sales, Marketing, and Support group supports the Company's products with technical support for end users, developers, and IT departments in organizations.

The Operations Group is responsible for managing business operations and overall business planning. This includes the process of manufacturing and delivering finished goods and licenses; corporate functions such as finance, administration, human resources, and legal.

Products

Windows Platforms

The Windows Platforms segment is responsible for the development of PC and server platforms, including the Microsoft Windows and Windows 2000 operating systems. The segment is also responsible for developing the Microsoft Internet Explorer browsing software and Microsoft Windows Media(TM) Technologies. PC operating systems perform a variety of functions, such as allocating computer memory, scheduling applications software execution, managing information and communication flow among the various PC components, and enabling end users to access files and information from a variety of sources. The Windows NT operating system for servers is an enterprise-wide platform for building and deploying distributed applications for networked PCs. The Windows Platforms segment also provides products for developing, running, and managing Internet and intranet applications and content.

Windows Millennium Edition. The latest version of the Windows operating system, Windows Millennium Edition (Me) operating system is designed specifically for home users to manage digital photos and music, work with video, create a home network, and communicate with other consumers. Windows Me was released in September 2000.

Windows 98. The successor to Windows 95, Windows 98 is a personal computer operating system that provides a Web-oriented user interface, better system performance along with easier system diagnostics and maintenance. Windows 98 supports graphics, sound, and multimedia technologies and provides the ability to easily add and remove peripheral devices and support for Universal Serial Bus (USB). Windows 98 was released in June 1998.

Windows 2000 Professional. The successor to Windows NT Workstation, Windows 2000 Professional operating system combined features to create a mainstream operating system for desktop and notebook computing in all organizations. Windows 2000 Professional contains the enhanced business features of Windows 98 such as Plug and Play, easy-to-use user interface, and power management and integrated the strengths of Windows NT Workstation including standards-based security, manageability, and reliability. Windows 2000 Professional was released in February 2000.

Windows NT Workstation. A fully integrated, multitasking 32-bit PC operating system, Windows NT Workstation provides security, robustness, and portability. Windows NT Workstation is designed for mission-critical computing and provides the same features and applications programming interfaces (APIs) for Intel and Alpha AXP microprocessors. Microsoft Windows NT Workstation combines the Windows 98 operating system interface and usability features with the reliability and security of Windows NT for the business environment.

Windows 2000 Server, Advanced Server, and Datacenter Server. Windows 2000 Server family builds on the Windows NT technology, integrating standards-based directory, Web, application, communications, file and print services with high reliability, efficient management, and support for networking hardware to provide the foundation for integrating with the Internet. Windows 2000 Server is a multipurpose network operating system for businesses of all sizes. Windows 2000 Advanced Server operating system is ideal for e-commerce and line-of-business applications and provides enhanced performance and scalability through SMP and extended memory

support. Windows Datacenter Server operating system is built for large-scale line-of-business and enterprise dotcom backend usage and supports server consolidation and enhanced scalability. Windows 2000 Server and Advanced Server were released in February 2000 and Windows Datacenter Server was released in September 2000.

Windows NT Server. Windows NT Server is an operating system foundation for both server applications and file and print sharing, with network management features, administration tools, security, and high availability. Windows NT Server provides a scalable platform for business critical applications and databases, connectivity, system management, and electronic mail (e-mail) servers. The operating system integrates Web services such as Microsoft Internet Information Server, a service used to manage intranet and Internet functionality, and Microsoft FrontPage(R) Web site creation and management tool. Windows NT Server, Terminal Server Edition, an extension to the Windows NT Server, offers the application support of the Windows operating system platform with the centrally managed environment of the mainframe with terminal. Windows NT Server Enterprise Edition provides the means for building and deploying large-scale distributed applications for large and mission-critical servers featuring comprehensive clustering for scalability and availability.

Other Servers. Microsoft Proxy Server creates a single, secure gateway to the Internet; Microsoft SNA Server provides connectivity to host data and applications; and Microsoft Systems Management Server helps centrally manage the distributed environment with integrated features, including hardware inventory, software inventory and metering, software distribution and installation, and remote troubleshooting tools.

Windows Media Technologies. Microsoft Windows Media Technologies provide the ability to create, deliver, and play streaming media files for applications ranging from news and entertainment to e-commerce and corporate training available across all types of devices, networks, and services. Windows Media Technologies components include the Windows Media Tools, Windows Media Services streaming server, and Windows Media Player.

Productivity Applications and Developer

The Productivity Applications and Developer segment develops desktop applications, server applications, developer tools, Web authoring tools, and solutions to businesses by providing software and services to conduct commerce on the Internet.

Business Productivity

The Business Productivity Division delivers integrated business productivity solutions for the knowledge worker, including the Office family of products, other desktop applications, server applications, and the Windows CE operating system for productivity appliances.

Microsoft Office. Microsoft Office is a suite of software programs featuring seamless integration of the most commonly used desktop applications. Microsoft Office is based upon a document-centric concept, with common commands and extensive use of cross-application capabilities. Microsoft Office is available in several versions, with certain combinations of products, and available for the Windows and Macintosh operating systems. Microsoft Office 2000 integrates core productivity tools with the Web to simplify publishing Office documents to an intranet or Internet site, simplifies information system support with a self-repairing installation, and has enhanced usability with customizable menus based on IntelliSense(R) technology rules. Products offered in the various versions include the word processor Microsoft Word, Microsoft Excel spreadsheet, Microsoft Outlook(TM) messaging and collaboration client, Microsoft PowerPoint(R) presentation graphics program, Microsoft Access database management application, and others. Microsoft Word is a word-processing program designed to easily create professional-looking documents for the Web, e-mail, and print. Microsoft Excel creates data-rich spreadsheets for universal viewing on the Internet and for collaboration, allows users to analyze data with charts, and incorporates Microsoft PivotTable(R) views and graphs. Microsoft Outlook messaging and collaboration client provides a single location for organizing and managing day-to-day information, including e-mail, calendars,

business contacts, and task lists. Microsoft PowerPoint presentation graphics program is a complete set of tools for creating professional presentations. Microsoft Access database management application allows for easy access and retrieval of information and includes pre-packaged solutions to create databases quickly. Microsoft FrontPage is a Web site creation and management tool for Web sites on the Internet or intranets. Microsoft PhotoDraw(TM) business graphics software is a program for creating custom business graphics by editing illustrations and photos.

Other Desktop Application Products. The Company also offers other stand-alone desktop application products. Microsoft Project is a critical path project scheduling and resource allocation program. Microsoft Visio(R) enables you to communicate effectively with easy-to-assemble drawings and diagrams; create organizational charts and flowcharts; draw technical schematics and annotate CAD drawings; build Web site maps; and manually or automatically work on network, software, and database design. Microsoft Publisher is an easy-to-use, entry-level desktop publishing program. Most of the applications included in the various productivity suites are also licensed separately.

Server Applications. The Microsoft BackOffice(R) family of server applications is an integrated suite of software products based on Windows NT Server that includes file and print services, applications, database, messaging, groupware, desktop management, Internet access, transaction processing, and host connectivity. The BackOffice suite enables organizations to share information, collaborate, and manage and deploy business-critical applications and includes BackOffice Server, Exchange Server, Proxy Server, Site Server, SQL Server(TM) and others. Microsoft BackOffice Small Business Server is designed for smaller companies of 25 users or less as an integrated solution for sharing files, databases, printers, electronic mail, fax services, applications, and other resources. Microsoft Site Server allows a comprehensive management of sophisticated Web sites and their content. Microsoft Site Server Commerce helps businesses engage customers and partners with creating cost-effective commerce sites and applications, targeted online advertising and marketing, and personalized promotion.

Microsoft Exchange Server. The Company's messaging and collaboration server is Microsoft Exchange Server, which provides e-mail, group scheduling, task management, and document routing capabilities. Exchange Server offers a scalable, reliable, and secure environment for multiple clients, and Internet protocols as part of the core server architecture. It also includes tools to create collaboration applications.

Windows CE. The Company delivers software and platform technologies for a broad range of productivity appliances. Microsoft develops and markets Windows CE, a scaleable Windows platform for communications, entertainment, and mobile computing devices. The Windows CE operating system is built around an API that is consistent with other 32-bit Windows-based operating systems. Windows CE allows productivity appliances to communicate with each other, share information with Windows-based PCs, and connect to the Internet. Microsoft teams up with hardware companies that build Windows CE-based devices.

bCentral. Microsoft's small businesses portal, bCentral, allows companies to leverage the Internet to drive their business forward. Microsoft bCentral Site Manager is a web site management and hosting service which empowers small businesses to easily create and manage their own web sites, while allowing for higher-end editing in Microsoft FrontPage. Microsoft bCentral LinkExchange, which the Company acquired in November 1998, provides services to small businesses and Web site owners to increase their online traffic and sales with free advertising banner ads on their site in exchange for placing ads on other network sites.

Developer

The Developer Group provides software development tools and distributed application platforms to developers of Windows-based applications and Internet applications. These products and services empower independent software developers, corporate developers, solutions developers, and Webmasters to create a broad spectrum of applications. Microsoft Windows Distributed interNet Applications (DNA) Architecture is the application development model for the Windows platform. Windows DNA specifies how to develop robust,

scalable, distributed applications using the Windows platform; extend existing data and external applications to support the Internet; and support a wide range of client devices. Windows DNA provides for the integration of Web and client/server application development models through the Component Object Model (COM). COM underlies a large majority of the code developed for Windows and Windows NT operating systems. COM+, an extension of COM, builds on COM's integrated services and features, making it easier for developers to create and use software components in any language, using any tool.

Developer Tools. Software development tools and computer languages allow software developers to write programs in a particular computer language and translate programs into a binary machine-readable set of commands that activate and instruct PC hardware. The Company develops and markets a number of software development environments and language compilers. Microsoft Visual C++(R) development system is the Company's development system for Windows-based application development. The Microsoft Visual Basic(R) development system provides easy access to a wide variety of data sources by integrating the Microsoft Access database engine and the ability to take advantage of investments in commercial applications. The Microsoft Visual InterDev(TM) Web development system includes integrated, team-based development tools for building Web-based applications based on HTML, Script, and components written in any language. Microsoft Visual J++(TM) development system for Java contains a high productivity Integrated Development Environment and a collection of integrated components to create, test, tune, and deploy Java code on multiple platforms. Microsoft Visual Studio(R) development system for Windows-based development is a suite of developer tools enabling developers to build components and applications using Visual Basic, Visual C++, Microsoft Visual FoxPro(R) database development system, Visual InterDev, and Visual J++.

Developers can subscribe to the Microsoft Developer Network (MSDN(TM)) information service and receive periodic updates via CD-ROMs, magazines, and several on-line information services.

Microsoft SQL Server. Microsoft SQL Server(TM) is a scalable, high-performance database management system designed specifically for distributed client/server computing. SQL Server has built-in data replication, management tools, Internet integration, and online analytical processing (OLAP) to aid in the analysis of information for reporting and data modeling. Its open system architecture provides a Windows NT-based platform for delivering cost-effective information solutions.

Consumer

The Consumer Group supplies services and content to consumers over the Internet including MSN Internet Access; WebTV(R) Internet Service; MSN Portal and vertical properties; and develops software and hardware products that are designed to meet the needs of consumers in the home environment. Most software and hardware products are licensed and sold to and through retail channels to consumers. Major product categories include learning, productivity, entertainment, and hardware peripherals.

The Microsoft Network. MSN Internet Access is a Web-based online service. MSN provides easy and inexpensive access for users to a wide range of graphically rich online content. MSN Internet Access provides dial-up Internet access, free Web-based e-mail through MSN Hotmail, and Microsoft MSN Messenger Service. MSN Hotmail, one of the largest e-mail services with 40 million members, provides members with an e-mail account they can access from any PC with Internet access and has localized versions in French, German, and Japanese. MSN Messenger Service is a free Internet messaging service that enables users to see when other users are online to exchange instant messages.

WebTV. WebTV Networks is an online service that enables consumers to experience the Internet through their televisions via set-top terminals based on WebTV(TM) technologies. WebTV operates the WebTV Network Service and develops the WebTV Internet Terminal and WebTV Plus Receiver, which are available through the Company's licensees. Future versions of the set-top terminals will use the Windows CE operating system.

MSN Portal. The MSN Portal business provides services on the Internet, encompassing the home page as well as the vertical services. The vertical services provide an online decision support infrastructure for end users

in many fields such as automobiles, travel, finance, and home purchasing. Microsoft CarPoint(TM) online automotive service provides objective information for new car purchases, including test-drive reviews, dealer invoices, surround videos, and interactive classified advertisements for used car purchasing. Microsoft HomeAdvisor(TM) online real estate service is a complete guide to the home-buying process and provides comprehensive tools for finding homes and loans on the Internet. Expedia, Inc., a majority owned subsidiary of Microsoft, is a provider of branded online travel services for leisure and small business travelers operating its own website with localized versions in the United Kingdom, Germany, and Canada and certain other websites in the United States and Europe. Expedia offers one-stop travel shopping and reservation services, providing reliable, real-time access to schedule, pricing and availability information. Expedia acquired Travelscape.com, Inc. and VacationSpot.com, Inc. in March 2000. MSN MoneyCentral(TM) personal finance online service is a free interactive personal finance resource to track securities by providing company and mutual fund research, an investment finder, daily editorial and market summaries, e-mail notifications and alerts, and access to online trading through leading financial services firms. MSNBC is an Internet news service that complements the MSNBC Cable Network, providing in-depth reporting and information on a wide range of news topics, from local to national to international news. Microsoft Passport is a platform technology that makes it safer and easier for consumers to access information and buy products and services online. Microsoft Passport allows consumers to create a single sign-in, registration, and electronic wallet that can be shared between all of the sites that support Microsoft Passport. TransPoint is an end-to-end system for Internet bill delivery and payment. TransPoint's service, using existing payment systems, allows consumers to access and pay their bills through the branded home banking services of participating financial institutions and other consumer service providers.

Learning. Learning titles include Microsoft Encarta(R) multimedia encyclopedia and Microsoft Bookshelf CD-ROM reference library. The Encarta family of products includes a multimedia encyclopedia database with interactive information, an interactive world atlas with three-dimensional maps, a world English dictionary, and an online version with monthly updates. Microsoft Bookshelf is a multimedia reference library that integrates a dictionary, world atlas, world almanac, thesaurus, concise encyclopedia, and two books of quotations. Titles for children include My Personal Tutor, a comprehensive, grade-based learning suite with TutorAssist(TM) learning technology that identifies a child's specific learning needs and offers instruction, and a series of products based on the popular children's book and television series, Scholastic's The Magic School Bus(TM).

Productivity and Finance. Microsoft's productivity offerings include Microsoft Works, an integrated software program that contains basic word-processing, spreadsheet, and database capabilities that allows the easy exchange of information from one tool to another. Microsoft Money is a financial organization product that allows users to computerize their finances and provides online home-banking services with numerous different banks in the United States. The Works Suite provides a comprehensive collection of software, including Microsoft Works, Microsoft Word, Microsoft Money, Microsoft Encarta encyclopedia, Microsoft Graphics Studio Greetings, and Microsoft Expedia Streets.

Entertainment. The Company offers a line of entertainment products from classical software games to online games, simulations, sport products, and strategy games. Microsoft Flight Simulator is a popular aircraft flight simulation product. Other games include Combat Flight Simulator, Age of Empires(R), Monster Truck Madness(R) racing simulation, Microsoft Baseball, Microsoft Links, and other sports and action titles. The Microsoft Internet Gaming Zone is a gaming community on the Internet allowing multiplayer gaming competitions of Microsoft's popular CD-ROM games and classic card, board, and puzzle games.

Hardware Peripherals. The Company develops and markets several PC input devices including the Microsoft Mouse, a hand-held pointing device that facilitates using the PC. The Microsoft IntelliMouse(R) pointing device with an electronic eye that tracks movements over surfaces, and works for left- and right-handed users. The Company also markets several types of keyboards including the Microsoft Natural(R) Keyboard, an ergonomically designed keyboard. Microsoft sells various Microsoft SideWinder(R) game controllers and force feedback joysticks with realistic performance technology to use with PC games.

Joint Ventures. The Company has entered into joint venture arrangements to take advantage of creative talent and content from other organizations. Microsoft owns 50 percent of MSNBC Cable L.L.C., a 24-hour cable

news and information channel; and 50 percent of MSNBC Interactive News L.L.C., an interactive online news service. National Broadcasting Company (NBC) owns the remaining 50 percent of these two joint ventures. Microsoft is an investor in Transpoint L.L.C., a joint venture between Microsoft, First Data Corporation, and Citibank. Microsoft owns a 49 percent of Avanade, a joint venture with Andersen Consulting which offers solutions and services based on Windows 2000.

Microsoft Press

Microsoft Press offers comprehensive learning and training resources to help new users, power users, and professionals get the most from Microsoft technology through books, CDs, self-paced training kits, and videos that are created to accommodate different learning styles and preferences. Microsoft Press(R) books are authored by professional and technical writers, both by Microsoft employees and independent authors.

Microsoft Press contracts with an independent commercial printer for the printing of its books. Publisher's Resources, Inc. acts as the Company's main fulfillment house in the United States, maintaining the majority of the inventory of Microsoft Press books. Books are marketed by independent sales representatives and by Microsoft Press sales personnel. Internationally, Microsoft Press has numerous agreements with publishers for the worldwide distribution of its books. Microsoft Press has granted a publisher in England the right to distribute English language versions of its books in all countries except the United States, Canada, Latin America, and certain Asian countries. In most cases, Microsoft Press provides each publisher with a book's manuscript, and the publisher arranges for its translation and the printing, marketing, and distribution of the translated version.

Customer Groups

The enterprise and partner sales group (EPG) has responsibility for providing strategic leadership and creating programs for enterprise customers and partners, assisting the field organization. The organization is responsible for coordinating the enterprise strategy by industry, market, partner and customer segment. EPG focuses on enterprise solutions including large and medium organizations enterprise strategy, industry solutions, integrated small organization strategy, anti-piracy, sales processes and readiness; sales and support systems; partner strategy and programs including global partner management; enterprise services; executive and technical sales including corporate account technical marketing, industry evangelism and executive sales events; and global account management. The group also creates an integrated end-to-end service continuum for enterprise customers.

The industry solutions group includes full-service practices for financial services, telecommunications, federal and state and local government, and the educational market .

The network solutions customer group is responsible for introducing the Company's products and technologies to public infrastructure owners and Internet Content Providers. The customer group also focuses on embedded and dedicated systems. Infrastructure owners include network operators (telephone companies, cable companies, Internet service providers, etc.) who build, own, and operate the public networks.

The consumer customer group has responsibility for activities that target end users that make individual buying decisions for home PCs. Most sales and marketing activities aimed at end-user customers are performed by this group, including developing and administering reseller relationships; reseller sales terms and conditions; channel marketing and promotions; end-user marketing programs; and seminars, events, and sales training for resellers. The customer group's sub-segments include direct marketing resellers and retailers.

Product Development

The software industry is characterized by extremely rapid technological change, which requires constant attention to computing technology trends, and shifting consumer demand, and rapid product innovation. The pace of change is accelerating, as the computing needs of our customers move beyond the PC toward intelligent devices and appliances.

Most of the Company's software products are developed internally. The Company also purchases technology, licenses intellectual property rights, and oversees third-party development and localization of certain products. Internal development enables Microsoft to maintain closer technical control over the products and gives the Company the freedom to designate which modifications and enhancements are most important and when they should be implemented. The Company has created a substantial body of proprietary development tools and has evolved development methodologies for creating and enhancing its products. These tools and methodologies are also designed to simplify a product's portability among different operating systems, microprocessors, or computing devices. Product documentation is generally created internally.

The Company believes that a crucial factor in the success of a new product is getting it to market quickly to respond to new user needs or advances in intelligent devices, PCs, servers, and the Internet, without compromising product quality. The Company strives to become informed at the earliest possible time about changing usage patterns and hardware advances that may affect software design. Before releasing new software platforms, Microsoft provides to software vendors a range of development, training, testing resources, and guidelines for developing applications to software vendors.

To best serve the needs of users around the world, Microsoft "localizes" many of its products to reflect local languages and conventions and to improve the quality and usability of the product in international markets. Localizing a product might require modifying the user interface, altering dialog boxes, and translating text. In Japanese versions, for example, all user messages and documentation are in Japanese with monetary references in the Japanese yen. Various Microsoft products have been localized into more than 30 languages.

During fiscal years 1998, 1999, and 2000, the Company spent \$2.60 billion, \$2.97 billion, and \$3.78 billion, respectively, on product research and development activities. Those amounts represented 17.0%, 15.0%, and 16.4%, respectively, of revenue in each of those years, excluding funding of joint venture activity. The Company is committed to continue high expenditures for research and product development.

In fiscal 2000, Microsoft announced its most significant software research and development initiative, Microsoft .NET. The fundamental strategy behind Microsoft .NET is to focus on the shift from individual Web sites or devices connected to the Internet, to constellations of computers, devices, and services that work together to deliver broader, richer solutions. Microsoft's .NET strategy includes the delivery of software as a service, built on the XML standard; a new user experience that is accessible across and optimized for a wide range of devices; and the creation of new opportunities for developers to build Internet services and business more easily. Microsoft .NET builds on Microsoft's core businesses, including Windows desktop and server operating systems, enterprise server applications, Microsoft Office, and MSN. Microsoft will offer a range of .NET products and services including Windows.NET--the next generation Windows platform designed with customized applications and services to allow user to control their digital information; MSN.NET--an integrated consumer experience built on the .NET platform to deliver a more integrated and personalized experience; subscription services--a set of consumer-oriented services on the .NET platform that will build on existing Microsoft entertainment, gaming, education, and productivity products; Office.NET-- advanced communications and productivity tools; bCentral.NET-- subscription-based services and tools for small and growing businesses including hosted messaging, commerce services, and customer relationship management services; and Visual Studio.NET--XML-based programming model and tools, fully supported by MSDN and Windows DNA 2000 servers.

Manufacturing

Microsoft contracts out most of its manufacturing activity to third parties. Outside manufacturers produce various retail software packaged products and hardware peripherals. There are other custom manufacturers Microsoft could use in the event outsourced manufacturing becomes unavailable from current vendors.

The Company's remaining manufacturing facilities are located in Puerto Rico and Ireland. The Irish facility and the Puerto Rico facilities manufacture CD-ROMs. Microsoft outsources its manufacturing of packaged

products. Quality control tests are performed on purchased parts, CD-ROMs, and other products. The chief materials and components used in Microsoft products include CD-ROMs, books, and multicolor printed materials. The Company is often able to acquire component parts and materials on a volume discount basis. The Company has multiple sources for raw materials, supplies, and components.

The Company's sales mix has shifted to OEM and organizational licenses from packaged products. Also, online distribution of software is increasing.

Operations

Microsoft manages all product fulfillment, licensing, and logistics services. The Company has regional operations centers in Ireland, Singapore, and the Greater Seattle area. The regional centers support all operations activities, including information processing, vendor management, logistics, and related supporting functions by geographical regions. The regional center in Dublin, Ireland supports the European, African, and Middle East regions, the center in Singapore supports the Asia Pacific region, and the center in the Greater Seattle area supports North and South America. The Company established Microsoft Licensing Incorporated (MSLI) in Reno, Nevada, a wholly owned subsidiary, which manages the Company's OEM and certain organizational licensing operations.

Marketing and Distribution

The Company's sales and marketing group seeks to build long-term relationships with customers of Microsoft products. The OEM sales group includes the sales force that works with original equipment manufacturers that preinstall Microsoft software on their PCs. In addition to the OEM channel, Microsoft has three major geographic sales and marketing organizations: the South Pacific and Americas; Europe, Middle East, and Africa; and Asia.

Finished Goods Channels

Distributors and Resellers. The Company licenses and sells its products in the finished goods channels primarily to and through independent non-exclusive distributors and resellers. Distributors include Inacom, Ingram Micro, SoftBank, Tech Data, and Merisel. Resellers include Software Spectrum, Corporate Software & Technology, CompUSA, Software House International, Softmart, ASAP Software Express, and Best Buy. Microsoft has a network of field sales representatives and field support personnel who solicit orders from distributors and resellers and provide product training and sales support.

Enterprise Accounts. The Microsoft Select program offers flexible software acquisition, licensing, and maintenance options specially customized to meet the needs of large multinational organizations. Targeted audiences include technology specialists and influential end users in large enterprises. Marketing efforts and fulfillment are generally coordinated with large account resellers. The Microsoft Open program is a licensing program that is targeted for small and medium size organizations. It is available through the reseller channel and offers discounts based on initial purchase volumes. The Microsoft Enterprise Agreement program is a licensing program designed to provide a flexible licensing and service solution tailored to customers making a long-term licensing commitment. The agreements are designed to increase customer satisfaction by simplifying license administration, payment terms, and the contract process.

Solution Providers. Microsoft's Solution Providers program is a comprehensive support relationship with independent organizations that provide network and system integration, custom development, training, and technical support for business computing solutions. The program supports system integrators, value-added resellers (VARs), consultants, custom application developers, solution developers, Internet service and hosting organizations, independent content providers, and site builders (companies that build Web sites for other companies), as well as technical support and training organizations. Under this business collaboration strategy,

the Company provides sales and product information, development services, early access to Microsoft products, and customer support tools, including priority telephone support, education, and business development support. To ensure high-quality technical services for the Company's products, Microsoft Solution Providers are required to have Microsoft-certified professionals on staff. Microsoft Direct Access is a comprehensive and open program that allows independent technology providers to actively work with Microsoft through the Microsoft Direct Access program online, quarterly briefings, training, and action packs.

Certified Professionals. Microsoft receives certification fees through the Microsoft Certified Professional (MCP) program, a program that provides credentials for those who have demonstrated in-depth knowledge of at least one Microsoft product. To become an MCP, a candidate must pass a certification exam that provides a valid and reliable measure of technical proficiency and expertise. MCP exams are developed with the input of professionals in the industry and reflect how Microsoft products are used in organizations throughout the world. The exams are administered by independent organizations at more than 1,400 testing centers around the world. MCPs receive access to technical and product information through an MCP Web site, MSDN Online Certified Membership, and invitations to conferences, technical training sessions, and special events. Candidates may pass additional Microsoft certification exams to further qualify their skills with Microsoft BackOffice products, development tools, and desktop applications.

Consulting Services. Microsoft Consulting Service assists customers in deploying and using the Company's computer operating systems, applications, and communications products. The group works with Solution Providers and helps create enterprise-wide computing solutions for large corporate accounts. Microsoft Consulting Services also works with technology solutions providers to enable them to offer a wide range of Microsoft product-related services backed by high levels of technical skill and knowledge.

International Sales Sites. The Company has established marketing and/or support subsidiaries in more than 70 countries. Product is generally delivered by the Company's owned or outsourced manufacturing operations, which are located in the geographical region in which the product was sold. By organizing geographically, the Company is able to provide service to international channel customers and access to Microsoft professionals located in the same region to serve their specific needs. Subsidiaries have the responsibility for selling products to customers, managing licensing programs, and providing support to all types of customers based in international countries. Notes to Financial Statements--(see Item 8) describe foreign operations and export sales.

The Company's international operations, both OEM and finished goods, are subject to certain risks common to foreign operations in general, such as governmental regulations, import restrictions, and foreign exchange rate fluctuations. Microsoft hedges a portion of its foreign exchange risk.

Product Support

The Company provides product support coverage options aligned to the customer segments, partner segments, and communities. Coverage options range from standard no-charge toll telephone support to fee-based offerings providing unlimited 800 number telephone and electronic technical support for all Microsoft products 24 hours per day, 7 days per week. Support offerings include the Alliance program, tailored for large enterprises running mission-critical applications on Microsoft platforms; the Premier program for enterprises and technical account managers needing regular managed support; the Authorized Premier Support for all types of businesses who work jointly with Microsoft and Microsoft Certified Support Center (MCSC) providers; and the Professional program for small organizations, developers and OEMs. The Personal program for home users, which provides free online self-help resources and paid assisted phone support. Users have access to troubleshooting "wizards" and Microsoft's KnowledgeBase, an online library of thousands of technical articles that is updated regularly with useful information regarding Microsoft products. Additionally, several support offerings include Microsoft TechNet and Microsoft Developer Network information subscription services.

Support personnel are located in various sites in the United States and around the world. Certain support is also supplied by qualified third-party support organizations.

As a supplement or alternative to direct support, the Company enhances the third-party support channel by providing Microsoft Certified Solution Providers with education, training, tools, and support. Microsoft Certified Solution Providers include Authorized Training Centers, which offer advanced product education and certification on Microsoft products; and Authorized Support Centers, which provide a wide spectrum of multinational support, multi-vendor support, and integration services.

OEM Channel

Microsoft operating systems are licensed primarily to OEMs under agreements that grant the OEMs the right to distribute copies of the Company's products with their computing devices, principally PCs. The Company also markets and licenses certain server operating systems, desktop applications, hardware devices, and consumer software programs to OEMs under similar arrangements. In almost all cases, the products are distributed under Microsoft trademarks. The Company has OEM agreements covering one or more of its products with virtually all of the major PC OEMs, including, Acer, Actebis, Compaq, Dell, eMachines, Fujitsu, Fujitsu Siemens Computers, Gateway, Hewlett Packard, IBM, Micron, NEC, Samsung, Sony, and Toshiba. A substantial amount of OEM business is also conducted with system builders, which are low-volume customized PC vendors.

Advertising

The Company works closely with large advertising and direct marketing firms. Advertising, direct marketing, worldwide packaging, and marketing materials are targeted to various end-user segments. The Company uses broad consumer media (television, radio, the Internet, and business publications) and trade publications. Microsoft has programs under which qualifying resellers and OEMs are reimbursed for certain advertising expenditures. The company has also formed an alliance with Best Buy to provide for joint marketing in Best Buy's retail stores, online, and through other vehicles to demonstrate and sell MSN Internet access and connectivity solutions.

Customers

The Company's customers include consumers, small and medium-sized organizations, enterprises, dotcoms, educational institutions, ISPs, application developers, and OEMs. Most consumers of Microsoft products are individuals in businesses, government agencies, educational institutions, and at home. The consumers and organizations obtain Microsoft products primarily through resellers and OEMs, which include certain Microsoft products with their computing hardware. Notes to Financial Statements (see Item 8) quantify customers that represent more than 10% of the Company's revenue. The Company's practice is to ship its products promptly upon receipt of purchase orders from its customers and, consequently, backlog is not significant.

Competition

The software business is intensely competitive and subject to extremely rapid technological change. As the company pursues its largest strategic initiative, Microsoft .NET, the Company could experience more intense competition during the transition from the traditional core businesses to its new products based on the .NET platform. The Company continues to face movements from PC-based applications to server-based applications or Web-based application hosting services, from proprietary software to open source software, and from PCs to Internet-based devices. A number of Microsoft's most significant competitors, including IBM, Sun Microsystems, Oracle, and AOL, are collaborating with one another on various initiatives directed at competing with Microsoft. These initiatives relate in part to efforts to move software from individual PCs to centrally managed servers, which would present significant challenges to the Company's historical business model. Other competitive collaborative efforts also include the development of new platform technologies that are intended to replicate much of the value of Microsoft Windows operating systems. New computing form factors, including non-PC information devices, are gaining popularity and competing with PCs running Microsoft's software products.

Microsoft faces formidable competition in these new areas and in all areas of its current business activity, including competition from many companies much larger than Microsoft. The rapid pace of technological change, particularly in the area of Internet platforms and services, continually creates new opportunities for existing competitors and start-ups and can quickly render existing technologies less valuable. The Company also faces relentless competition from software pirates who unlawfully copy and distribute Microsoft's copyrighted software products, depriving the Company of large amounts of revenue on an annual basis.

Operating Systems. Microsoft's operating system products face substantial competition from a wide variety of companies. Competitors such as IBM, Apple Computer, Sun Microsystems, and others are vertically integrated in both software development and hardware manufacturing and have developed operating systems that they preinstall on computers of their own manufacture. Many of these operating system software products are also licensed to third-party OEMs for preinstallation on their computers. Microsoft's operating system products compete with UNIX-based operating systems from a wide range of companies, including IBM, AT&T, Hewlett-Packard, Sun Microsystems, The Santa Cruz Operation, and others. Variants of UNIX run on a wide variety of computer platforms and have gained increasing acceptance as desktop operating systems. With an increased attention toward open-source software, the Linux operating system has gained increasing acceptance. Several computer manufacturers preinstall Linux on PC Servers and many leading software developers have written applications that run on Linux. Microsoft Windows operating systems are also threatened by alternative platforms such as those based on Internet browsing software and Java technology promoted by AOL and Sun Microsystems.

Business Solutions. The Company competes in the business of providing enterprise-wide computing solutions with several competitors who enjoy a larger share of sales and larger installed bases. Many companies offer operating system software for mainframes and midrange computers, including IBM, Hewlett-Packard, and Sun Microsystems. Since legacy business systems are typically support-intensive, these competitors also offer substantial support services. Software developers that provide competing server applications for PC-based distributed client/server environments include Oracle, IBM, Computer Associates, Sybase, and Informix. There are also several software vendors who offer connectivity servers. As mentioned above, there are numerous companies and organizations that offer Internet and intranet server software, that compete against the Company's business systems. Additionally, IBM has a large installed base of Lotus Notes and cc:Mail, both of which compete with the Company's collaboration and e-mail products.

Desktop Applications. The Company's competitors include many software application vendors, such as IBM (Lotus), Oracle, Apple (Filemaker, Inc.), Sun Microsystems, Corel, Qualcomm, and local application developers in Europe and Asia. IBM and Corel have large installed bases with their spreadsheet and word-processor products, respectively, and both have aggressive pricing strategies. Also, IBM and Apple preinstall certain of their application software products on various models of their PCs, competing directly with Microsoft's desktop application software. Additionally, Web-based application hosting services provide an alternative to PC-based applications such as Microsoft Office.

Developer Tools. The Company's developer products compete against offerings from Borland, Macromedia, Oracle, Sun Microsystems, Sybase, Symantec, and other companies.

Consumer Platforms. A wide variety of companies develop operating systems for information appliances, including Palm, Apple, Motorola, 3Com, Psion Software, Sun Microsystems, Microworkz, Be, Inc., WindRiver, Symbian and others. The Company's WebTV offerings and other multimedia consumer products face competitors such as AOL, Oracle, Liberate Technologies, NetChannel, and others. An enormous range of companies, including media conglomerates, telephone companies, cable companies, retailers, hardware manufacturers, and software developers, are competing to make interactive services widely available to the home.

E-Commerce. Microsoft competes with many companies in the e-commerce business and its major components, including business-to-consumer, business-to-business, procurement, and supply chain integration. In the development and marketing of Internet and intranet solutions, major commerce software competitors

provide many different ranges of products and solutions that compete with Microsoft, including IBM, Oracle, AOL, Sun Microsystems, Broadvision, and many others.

Online Services. Microsoft's online services network, MSN, faces formidable competition from AOL (including its CompuServe unit), Yahoo, and a vast array of Web sites and portals that offer content of all types and e-mail, instant messaging, calendaring, chat, and search and shopping services, among other things. In addition, the ease of entry into Internet services has allowed numerous Web-based service companies to build significant businesses in areas such as e-mail, electronic commerce, Web search engines, directories, and information of numerous types. Competitors include AOL, Yahoo, Excite, Lycos, Infoseek, AltaVista, and many others. The Company's MSNBC joint ventures face formidable competition from other 24-hour cable and Internet news organizations such as CNN, CNN Headline News, and Fox News Network. MSNBC also competes with traditional news media such as newspapers, magazines and broadcast TV.

Consumer Software and Hardware. The Company's Consumer Group faces smaller, but focused and branded competitors, particularly in the areas of hardware, learning, and entertainment. Consolidation in this area of software development has made certain competitors even stronger. Competitors include Intuit, Electronic Arts, Mattel (The Learning Company), Hasbro, Logitech, Voyager, Cendant, and Dorling Kindersley. Still other competitors own branded content, such as Disney and Lucas Arts.

Additionally, PC-based games and the Company's future Xbox compete and will compete head-to-head against games created for proprietary systems such as Nintendo, Sony PlayStation, and Sega. Input devices face substantial competition from computer manufacturers, since computers are typically sold with a keyboard and mouse, and other manufacturers of these devices.

The Company's competitive position may be adversely affected by one or more of these factors in the future, particularly in view of the fast pace of technological change in the computing industry.

Employees

As of June 30, 2000, the Company employed approximately 39,100 people on a full-time basis, 27,000 in the United States and 12,100 internationally. Of the total, 16,000 were in product research and development, 18,200 in sales, marketing, and support, 1,500 in manufacturing and distribution, and 3,400 in finance and administration. Microsoft's success is highly dependent on its ability to attract and retain qualified employees. Competition for employees is intense in the software industry. To date, the Company believes it has been successful in its efforts to recruit qualified employees, but there is no assurance that it will continue to be as successful in the future. None of the Company's employees is subject to collective bargaining agreements. The Company believes relations with its employees are excellent.

Item 2. Properties

The Company's corporate offices consist of approximately 6.8 million square feet of office building space located in King County, Washington situated on two sites that total approximately 306 acres of land. The Company recently completed the construction of an office building comprising approximately 145,000 square feet of space and is constructing two buildings with approximately 495,000 square feet of space that will be occupied in the winter of 2002. The Company owns 4.8 million square feet of its corporate campus and leases many buildings in the Puget Sound Region. The Company has leased several buildings totaling approximately 710,000 square feet of space that will be occupied by the fall of 2000. To accommodate expansion needs the Company has an option to purchase 150 acres of land in Issaquah, Washington.

The Company leases many sites domestically totaling approximately 2.4 million square feet of office building space. The construction of a 575,000 square foot campus in the San Francisco, California area was recently completed.

The Company leases many sites internationally totaling approximately 3.7 million square feet. The Company's European operations center and localization division consist of a 345,000 square foot campus situated on 17 acres

in Dublin, Ireland. The Ireland facilities are partially owned by the Company. The Company leases a 45,000 square-foot disk duplication facility in Humacao, Puerto Rico and leases a 36,000 square-foot facility in Singapore for its Asia Pacific operations center. The Company has large office building space leased in the following locations: Tokyo, Japan 343,000 square feet; Unterschleissheim, Germany 253,000 square feet; United Kingdom campus 242,000 square feet; Les Ulis, France 229,000 square feet; and Beijing, China 115,000 square feet.

The Company's facilities are fully used for current operations of all segments and suitable additional space is available to accommodate expansion needs.

Item 3. Legal Proceedings

The information set forth in Notes to Financial Statements--Contingencies on pages 39-41 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.4.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2000.

Executive Officers of the Registrant

The executive officers of Microsoft as of September 8, 2000 were as follows:

Name	Age	Position with the Company
William H. Gates.....	44	Chairman of the Board; Chief Software Architect
Steven A. Ballmer.....	44	President; Chief Executive Officer
Robert J. Herbold.....	58	Executive Vice President; Chief Operating Officer
William H. Neukom.....	58	Executive Vice President, Law and Corporate Affairs; Secretary
James E. Allchin.....	48	Group Vice President, Platforms
Orlando Ayala Lozano....	44	Group Vice President, Sales, Marketing and Services
Richard E. Belluzzo.....	46	Group Vice President, Personal Services and Devices
Paul A. Maritz.....	45	Group Vice President, Platforms Strategy and Developer
Robert L. Muglia.....	40	Group Vice President, .NET Services
Jeffrey S. Raikes.....	42	Group Vice President, Productivity and Business Services
Robert J. Bach.....	38	Senior Vice President, Home and Retail
Brad Chase.....	40	Senior Vice President, MSN.com
David Cole.....	38	Senior Vice President, Personal Services Platform
John G. Connors.....	41	Senior Vice President, Finance and Administration; Chief Financial Officer
Jean-Philippe Courtois..	40	Senior Vice President; President, Microsoft Europe, Middle East, and Africa
Jon DeVaan.....	39	Senior Vice President, TV Service and Platform
Paul Flessner.....	41	Senior Vice President, .NET Enterprise Server
Paul H. Gross.....	39	Senior Vice President, Collaboration and Mobility
Joachim Kempin.....	58	Senior Vice President, OEM
Michel Lacombe.....	49	Senior Vice President; Chairman, Microsoft Europe, Middle East, and Africa
Brian MacDonald.....	38	Senior Vice President, Subscription Service
Craig Mundie.....	51	Senior Vice President, Consumer Strategy
Richard F. Rashid.....	48	Senior Vice President, Research
Steven J. Sinofsky.....	35	Senior Vice President, Office
Brian Valentine.....	40	Senior Vice President, Windows
David Vaskevitch.....	47	Senior Vice President, Business Applications
Bernard P. Vergnes.....	55	Senior Vice President; Chairman Emeritus, Microsoft Europe, Middle East, and Africa

Mr. Gates co-founded Microsoft in 1975 and served as its Chief Executive Officer from the time the original partnership was incorporated in 1981 until January 2000, when he resigned as Chief Executive Officer and took on the position of Chief Software Architect. Mr. Gates has served as Chairman of the Board since the Company's incorporation.

Mr. Ballmer was named Chief Executive Officer and a director of the Company in January 2000. He has been President since July 1998, and prior to that, he had served as Executive Vice President, Sales and Support since February 1992. He was Senior Vice President, Systems Software from 1989 to 1992. From 1984 until 1989, Mr. Ballmer served as Vice President, Systems Software. He joined Microsoft in 1980.

Mr. Herbold joined Microsoft as Executive Vice President and Chief Operating Officer in November 1994. Mr. Herbold had been with The Procter & Gamble Company since 1968, with experience in information services, advertising and market research. Most recently, he was P&G's Senior Vice President, Information Services and Advertising.

Mr. Neukom was named Executive Vice President, Law and Corporate Affairs in October 1999. He had been Senior Vice President, Law and Corporate Affairs since February 1994. He joined Microsoft in 1985 as Vice President, Law and Corporate Affairs.

Mr. Allchin was named Group Vice President, Platforms in December 1999. He had been Senior Vice President, Platforms since March 1999. He was previously Senior Vice President, Personal and Business Systems since February 1996, Senior Vice President, Business Systems Division since November 1994, and had been Vice President, Business Systems Division since July 1991. Mr. Allchin joined Microsoft in 1991.

Mr. Ayala was named Group Vice President, Sales, Marketing and Services in August 2000. He had been Senior Vice President, South Pacific and Americas since February 1998 and before holding that position was Vice President of the developing markets of Africa, India, the Mediterranean and Middle East, Latin America, Southeast Asia and the South Pacific. He joined Microsoft in May 1991 as Senior Director of the Latin America Region.

Mr. Belluzzo was named Group Vice President, Personal Services and Devices in August 2000. He joined Microsoft as Group Vice President, Consumer and Commence in September 1999. Mr. Belluzzo had been Chairman of the Board and Chief Executive Officer, Silicon Graphics, Inc. since January 1998. Prior to his employment at Silicon Graphics, Inc., Belluzzo was employed by the Hewlett-Packard Company for 22 years, serving since 1995 as Executive Vice President and General Manager of the computer organization.

Mr. Maritz was named Group Vice President, Platforms Strategy and Developer in March 2000. He had been Group Vice President, Developer since March 1999. He was previously Group Vice President, Platforms and Applications since October 1996 and before holding that position was Group Vice President, Platforms since May 1995. Mr. Maritz had been Senior Vice President, Product and Technology Strategy since November 1994 and had been Senior Vice President, Systems Division since February 1992. He had been Vice President, Advanced Operating Systems since 1989. Mr. Maritz joined Microsoft in 1986. On September 13, 2000, Microsoft announced that Mr. Maritz is retiring from the Company, but will continue to serve as a consultant to Microsoft on strategic and business issues.

Mr. Muglia was named Group Vice President, .NET Services in August 2000. He had been Group Vice President, Business Productivity since December 1999. He was named Senior Vice President, Business Productivity in March 1999 and was named Senior Vice President, Applications and Tools in February 1998. He had been Vice President, Server Applications since 1997 and was Vice President, Developer Tools since 1995. He joined Microsoft in January 1988.

Mr. Raikes was named Group Vice President, Productivity and Business Services in August 2000. He had been Group Vice President, Sales and Support since July 1998. Before holding that position, he had been Group

Vice President, Sales and Marketing since July 1996. He was named Senior Vice President, Microsoft North America in January 1992 and had been Vice President, Office Systems since 1990. Mr. Raikes joined Microsoft in 1981.

Mr. Bach was named Senior Vice President, Home and Retail in March 2000. He had been Vice President, Home and Retail since March 1999. Before holding that position, he had been Vice President, Learning, Entertainment and Productivity since 1996. Mr. Bach joined Microsoft in 1988.

Mr. Chase was named Senior Vice President, MSN.com in December 1999. He had been Senior Vice President, Consumer and Commerce since September 1999. Mr. Chase had been Vice President, Consumer and Commerce since March 1999. He was Vice President, Developer Relations and Windows Marketing. Mr. Chase joined Microsoft in July 1987.

Mr. Cole was named Senior Vice President, Personal Services Platform in August 2000. He had been Senior Vice President, Consumer Services since December 1999. Before holding that position, he had been Vice President, Consumer Windows since March 1999. He was Vice President, Web Client and Consumer Experience and Vice President, Internet Client and Collaboration. Mr. Cole joined Microsoft in 1986.

Mr. Connors was named Senior Vice President, Finance and Administration, and Chief Financial Officer in December 1999. He had been Vice President, Enterprise since March 1999. Mr. Connors had been Vice President, Information Technology, and Chief Information Officer since July 1996. He joined Microsoft in January 1989.

Mr. Courtois was named Senior Vice President and President, Microsoft Europe, Middle East, and Africa in July 2000. He had been Vice President, Customer Marketing since July 1998. Before holding that position, he had been Vice President of Microsoft Europe since 1997 and General Manager for Microsoft France since 1994. Mr. Courtois joined Microsoft in 1984.

Mr. DeVaan was named Senior Vice President, TV Service and Platform in December 1999. He had been Senior Vice President, Consumer and Commerce since September 1999. Mr. DeVaan had been Vice President, Consumer and Commerce since March 1999. He had been Vice President, Desktop Applications since 1995. Mr. DeVaan joined Microsoft in 1985.

Mr. Flessner was named Senior Vice President, .NET Enterprise Server in December 1999. He had been Vice President, Database and Data Access. Since joining the Company, Mr. Flessner's primary responsibilities have been the development of Microsoft's database business. He assumed responsibility for the engineering of Microsoft SQL Server in 1995. He joined Microsoft in 1994.

Mr. Gross was named Senior Vice President, Collaboration and Mobility in March 2000. He had been Senior Vice President, Server Applications since December 1999 and Vice President, Server Applications since March 1999. Before holding that position, he had been Vice President, Developer Tools. Mr. Gross joined Microsoft in September 1996. Before joining Microsoft, he was Senior Vice President of Research and Development at Borland International Inc.

Mr. Kempin was named Senior Vice President, OEM in August 1993. He had been Vice President, OEM Sales since 1987. Mr. Kempin joined Microsoft in 1983.

Mr. Lacombe is Chairman, Microsoft Europe, Middle East, and Africa. He was named Senior Vice President, Europe, Middle East, and Africa in February 1998. He had been President, Microsoft Europe and Senior Vice President, Microsoft since July 1997. He had been Vice President, Europe since September 1995. Mr. Lacombe joined Microsoft in 1983.

Mr. MacDonald was named Senior Vice President, Subscription Service in August 2000. He had been Vice President, New Application Technologies since December 1999. Before holding that position, he started and led the team that created the Microsoft Outlook messaging and collaboration client. He joined Microsoft in 1989.

Mr. Mundie is Senior Vice President, Consumer Strategy. He was named Senior Vice President, Consumer Platforms in February 1996. He was named Senior Vice President, Consumer Systems in May 1995 and had been Vice President, Advanced Consumer Technology since July 1993. He joined Microsoft as General Manager, Advanced Consumer Technology in December 1992.

Mr. Rashid was named Senior Vice President, Research in May 2000. He had been Vice President, Research since July 1994. He joined Microsoft in September 1991.

Mr. Sinofsky was named Senior Vice President, Office in December 1999. He had been Vice President, Office since December 1998. Mr. Sinofsky joined the Office team in 1994, increasing his responsibility with each subsequent release of the desktop suite. He joined Microsoft in July 1989.

Mr. Valentine was named Senior Vice President, Windows in December 1999. He had been Vice President, Business and Enterprise since March 1999. He had been Vice President, Windows since December 1998. Before managing the Windows group, Mr. Valentine managed the server applications division and had been responsible for the Exchange product unit. He joined Microsoft in 1987.

Mr. Vaskevitch was named Senior Vice President, Business Applications in March 2000. He had been Senior Vice President, Developer since December 1999. Before holding that position, he had been Vice President, Distributed Applications Platform. He joined Microsoft in 1986.

Mr. Vergnes is a Senior Vice President and Chairman Emeritus, Microsoft Europe, Middle East, and Africa. He was named President, Microsoft Europe in April 1992. He had been Vice President, Europe since 1989. Mr. Vergnes joined Microsoft in 1983.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The information set forth on page 43 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.1.

Reference is also made to the information on put warrants described in the notes to financial statements incorporated herein by reference and filed herewith as Exhibit 13.4. All such transactions are exempt from registration under Section 4 (2) of the Securities Act of 1933. Each transaction was privately negotiated and each offeree and purchaser was an accredited investor/qualified institutional buyer. No public offering or public solicitation was used by the registrant in the placement of these securities.

On June 2, 2000, the Company issued an aggregate of 37,530 of its common shares pursuant to the acquisition by the Company of substantially all of the assets of NetGames USA, Inc., a Kansas corporation ("NetGames") owned by eleven shareholders. All of the Company common shares issued in this transaction were issued in a non-public offering pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), under Section 4(2) of the 1933 Act. This sale was made without general solicitation or advertising. The Company has filed a Registration Statement on form S-3 covering the resale of such securities. All net proceeds from the sale of such securities will go to the selling shareholders who offer and sell their shares. The Company has not received and will not receive any proceeds from the sale of these common shares other than the assets and liabilities of NetGames.

Item 6. Selected Financial Data

The information set forth on the inside front cover of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.2.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

The information set forth on pages 15-24 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.3.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The information set forth on page 23 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.3.

Item 8. Financial Statements and Supplementary Data

The following financial statements for the Company and independent auditors' report set forth on pages 14, 25-42, and 45 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.4.

- . Income Statements for the three years ended June 30, 2000
- . Cash Flows Statements for the three years ended June 30, 2000
- . Balance Sheets as of June 30, 1999 and 2000
- . Stockholders' Equity Statements for the three years ended June 30, 2000
- . Notes to Financial Statements
- . Independent Auditors' Report

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

PART III

Item 10. Directors of the Registrant

Information with respect to Directors may be found under the caption "Election of Directors and Management Information" on pages 1 and 2 of the Company's Proxy Statement dated September 8, 2000, for the Annual Meeting of Shareholders to be held November 9, 2000 (the "Proxy Statement"). Such information is incorporated herein by reference.

Item 11. Executive Compensation

The information in the Proxy Statement set forth under the captions "Information Regarding Executive Officer Compensation" on pages 4 through 6 and "Information Regarding the Board and its Committees" on page 2 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption "Information Regarding Beneficial Ownership of Principal Shareholders, Directors, and Management" on page 3 of the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information set forth under the caption "Certain Relationships and Related Transactions" on page 8 of the Proxy Statement is incorporated herein by reference. The information in Notes to Financial Statements--Operational Transactions on pages 38 through 39 of the 2000 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.4.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements and Schedules

The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein by reference.

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Reports on Form 8-K

The Company filed one report on Form 8-K during the quarter ended June 30, 2000. The Company disclosed that on June 7, 2000, the United States District Court for the District of Columbia entered a Final Judgment and Memorandum and Order in the case United States of America v. Microsoft Corporation. Also, the Company disclosed that on June 13, 2000, it filed a Notice of Appeal and Motion for a Stay of the Judgment Pending Appeal, appealing to the United States Court of Appeals for the District of Columbia Circuit the Final Judgment and the Findings of Fact and Conclusions of Law entered on April 3, 2000 finding that Microsoft violated the federal and state antitrust laws. In addition, the United States Court of Appeals for the District of Columbia Circuit entered an Order on June 13, 2000 agreeing to hear the appeal by the court sitting en banc.

(c) Exhibit Listing

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Microsoft Corporation (1)
3.2	Bylaws of Microsoft Corporation (1)
10.1	Microsoft Corporation 1991 Stock Option Plan (2)
10.2	Microsoft Corporation 1981 Stock Option Plan (3)
10.3	Microsoft Corporation 1999 Stock Option Plan for Non-Employee Directors (4)
10.4	Microsoft Corporation Stock Option Plan for Consultants and Advisors (5)
10.5	Microsoft Corporation 1997 Employee Stock Purchase Plan
10.6	Microsoft Corporation Savings Plus Plan
10.7	Trust Agreement dated June 1, 1993 between Microsoft Corporation and First Interstate Bank of Washington (6)
10.8	Form of Indemnification Agreement (6)
11.	Computation of Earnings Per Share (7)
13.1	Quarterly and Market Information Incorporated by Reference to Page 43 of 2000 Annual Report to Shareholders ("2000 Annual Report")
13.2	Selected Financial Data Incorporated by Reference to the inside front cover of 2000 Annual Report
13.3	Management's Discussion and Analysis of Results of Operations and Financial Condition Incorporated by Reference to Pages 15-24 of 2000 Annual Report
13.4	Financial Statements Incorporated by Reference to Pages 14, 25-42, and 45 of 2000 Annual Report
21.	Subsidiaries of Registrant
23.	Independent Auditors' Consent
27.	Financial Data Schedule

(1) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1999.

(2) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1997.

- (3) Incorporated by reference to Registration Statement 33-37623 on Form S-8.
- (4) Incorporated by reference to Registration Statement 333-91755 on Form S-8.
- (5) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1994.
- (6) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1993.
- (7) Incorporated by reference to Exhibit 13.4 filed herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Redmond, State of Washington, on September 28, 2000.

MICROSOFT CORPORATION

/s/ John G. Connors
 By _____
 John G. Connors
 Senior Vice President, Finance
 and
 Administration; Chief Financial
 Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on September 28, 2000.

Signature

Title

William H. Gates	Chairman of the Board of Directors and Chief Software Architect
/s/ Steven A. Ballmer	President and Chief Executive Officer
Steven A. Ballmer	
/s/ Paul G. Allen	Director
Paul G. Allen	
Richard A. Hackborn	Director
/s/ David F. Marquardt	Director
David F. Marquardt	
/s/ Ann McLaughlin	Director
Ann McLaughlin	
/s/ Wm. G. Reed, Jr.	Director
Wm. G. Reed, Jr.	
/s/ Jon A. Shirley	Director
Jon A. Shirley	
/s/ John G. Connors	Senior Vice President, Finance and Administration; Chief Financial Officer
John G. Connors	

Exhibit Index

Exhibit

Number Description

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- 10.8 Form of Indemnification Agreement (6)
- 11. Computation of Earnings Per Share (7)
- 13.1 Quarterly and Market Information Incorporated by Reference to Page 43 of 2000 Annual Report to Shareholders ("2000 Annual Report")
- 13.2 Selected Financial Data Incorporated by Reference to the inside front cover of 2000 Annual Report
- 13.3 Management's Discussion and Analysis of Results of Operations and Financial Condition Incorporated by Reference to Pages 15-24 of 2000 Annual Report
- 13.4 Financial Statements Incorporated by Reference to Pages 14, 25-42, and 45 of 2000 Annual Report
- 21. Subsidiaries of Registrant
- 23. Independent Auditors' Consent
- 27. Financial Data Schedule

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- (1) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1999.
 - (2) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1997.
 - (3) Incorporated by reference to Registration Statement 33-37623 on Form S-8.
 - (4) Incorporated by reference to Registration Statement 333-91755 on Form S-8.
 - (5) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1994.
 - (6) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1993.
 - (7) Incorporated by reference to Exhibit 13.4 filed herein.

Microsoft Corporation

1997 Employee Stock Purchase Plan

As approved by the Board of Directors
on August 10, 1996 and the
Shareholders on November 12, 1996

MICROSOFT CORPORATION
1997 EMPLOYEE STOCK PURCHASE PLAN

Microsoft Corporation (the "Company") does hereby establish its 1997 Employee Stock Purchase Plan as follows:

1. Purpose of the Plan. The purpose of this Plan is to provide eligible

employees who wish to become shareholders in the Company a convenient method of doing so. It is believed that employee participation in the ownership of the business will be to the mutual benefit of both the employees and the Company.

2. Definitions.

2.1 "Base pay" means regular straight time earnings, plus review cycle bonuses and overtime payments, payments for incentive compensation, and other special payments except to the extent that any such item is specifically excluded by the Board of Directors of the Company (the "Board").

2.2 "Account" shall mean the funds accumulated with respect to an individual employee as a result of deductions from his paycheck for the purpose of purchasing stock under this Plan. The funds allocated to an employee's account shall remain the property of the respective employee at all times but may be commingled with the general funds of the Company.

3. Employees Eligible to Participate. Any employee of the Company or any

of its subsidiaries who is in the employ of the Company or subsidiary on an offering commencement date is eligible to participate in that offering, except (a) employees whose customary employment is less than 20 hours per week, (b) employees whose customary employment is for not more than five months in any calendar year, and (c) employees of a subsidiary that offers its employees the opportunity to participate in an employee stock purchase plan covering such subsidiary's common stock.

4. Offerings. There will be twelve separate consecutive six-month

offerings pursuant to the Plan. The first offering shall commence on January 1, 1997. Thereafter, offerings shall commence on each subsequent July 1 and January 1, and the final offering under this Plan shall commence on July 1, 2002 and terminate on December 31, 2002. In order to become eligible to purchase shares, an employee must sign an Enrollment Agreement, and any other necessary papers on or before the commencement date (January 1 or July 1) of the particular offering in which he wishes to participate. Participation in one offering under the Plan shall neither limit, nor require, participation in any other offering.

5. Price. The purchase price per share shall be the lesser of (1) 85% of

the fair market value of the stock on the offering date; or (2) 85% of the fair market value of the stock on the last business day of the offering. Fair market value shall mean the closing bid price as reported on the National Association of Securities Dealers Automated Quotation System or, if the stock is traded on a stock exchange, the closing price for the stock on the principal such exchange.

6. Offering Date. The "offering date" as used in this Plan shall be the

commencement date of the offering, if such date is a regular business day, or the first regular business day following such commencement date. A different date may be set by resolution of the Board.

7. Number of Shares to be Offered. The maximum number of shares that

will be offered under the Plan is 80,000,000 shares. The shares to be sold to participants under the Plan will be common stock of the Company. If the total number of shares for which options are to be granted on any date in accordance with Section 10 exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable. In such event, the payroll deductions to be made pursuant to the

authorizations therefor shall be reduced accordingly and the Company shall give written notice of such reduction to each employee affected thereby.

8. Participation.

8.1 An eligible employee may become a participant by completing an Enrollment Agreement provided by the Company and filing it with Shareholder Services prior to the Commencement of the offering to which it relates.

8.2 Payroll deductions for a participant shall commence on the offering date, and shall end on the termination date of such offering unless earlier terminated by the employee as provided in Paragraph 14.

8.3 Payroll deduction shall be the sole means of accumulating funds in a participant's account, except in foreign countries where payroll deductions are not allowed, in which case the Company may authorize alternative payment methods.

9. Payroll Deductions.

9.1 At the time a participant files his authorization for a payroll deduction, he shall elect to have deductions made from his pay on each payday during the time he is a participant in an offering at any non-fractional percentage rate between 1% and 10%.

9.2 All payroll deductions made for a participant shall be credited to his account under the Plan. A participant may not make any separate cash payment into such account nor may payment for shares be made other than by payroll deduction.

9.3 A participant may discontinue his participation in the Plan as provided in Section 14, but no other change can be made during an offering and, specifically, a participant may not alter the rate of his payroll deductions for that offering.

10. Granting of Option. On the offering date, this Plan shall be deemed

to have granted to the participant an option for as many full shares as he will be able to purchase with the payroll deductions credited to his account during his participation in that offering. Notwithstanding the foregoing, no participant may purchase more than 8,000 shares of stock during any single offering.

11. Exercise of Option. Each employee who continues to be a participant

in an offering on the last business day of that offering shall be deemed to have exercised his option on such date and shall be deemed to have purchased from the Company such number of full shares of common stock reserved for the purpose of the Plan as his accumulated payroll deductions on such date will pay for at the option price.

12. Employee's Rights as a Shareholder. No participating employee shall

have any right as a shareholder with respect to any shares until the shares have been purchased in accordance with Section 11 above and the stock has been issued by the Company.

13. Evidence of Stock Ownership.

13.1 Promptly following the end of each offering, the number of shares of common stock purchased by each participant shall be deposited into an account established in the participant's name at a stock brokerage or other financial services firm designated by the Company (the "ESPP Broker").

13.2 The participant may direct, by written notice to the Company at the time of his enrollment in the Plan, that his ESPP Broker account be established in the names of the participant and

one other person designated by the participant, as joint tenants with right of survivorship, tenants in common, or community property, to the extent and in the manner permitted by applicable law.

13.3 A participant shall be free to undertake a disposition (as that term is defined in Section 424(c) of the Code) of the shares in his account at any time, whether by sale, exchange, gift, or other transfer of legal title, but in the absence of such a disposition of the shares, the shares must remain in the participant's account at the ESPP Broker until the holding period set forth in Section 423(a) of the Code has been satisfied. With respect to shares for which the Section 423(a) holding period has been satisfied, the participant may move those shares to another brokerage account of participant's choosing or request that a stock certificate be issued and delivered to him.

13.4 A participant who is not subject to payment of U.S. income taxes may move his shares to another brokerage account of his choosing or request that a stock certificate be issued and delivered to him at any time, without regard to the satisfaction of the Section 423(a) holding period.

14. Withdrawal.

14.1 An employee may withdraw from an offering, in whole but not in part, at any time prior to the last business day of such offering by delivering a Withdrawal Notice to the Company, in which event the Company will refund the entire balance of his deductions as soon as practicable thereafter.

14.2 To re-enter the Plan, an employee who has previously withdrawn must file a new Enrollment Agreement in accordance with Section 8.1. The employee's re-entry into the Plan will not become effective before the beginning of the next offering following his withdrawal, and if the withdrawing employee is an officer of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 he may not re-enter the Plan before the beginning of the second offering following his withdrawal.

15. Carryover of Account. At the termination of each offering the Company

shall automatically re-enroll the employee in the next offering, and the balance in the employee's account shall be used for option exercises in the new offering, unless the employee has advised the Company otherwise. Upon termination of the Plan, the balance of each employee's account shall be refunded to him.

16. Interest. No interest will be paid or allowed on any money in the

accounts of participating employees.

17. Rights Not Transferable. No employee shall be permitted to sell,

assign, transfer, pledge, or otherwise dispose of or encumber either the payroll deductions credited to his account or any rights with regard to the exercise of an option or to receive shares under the Plan other than by will or the laws of descent and distribution, and such right and interest shall not be liable for, or subject to, the debts, contracts, or liabilities of the employee. If any such action is taken by the employee, or any claim is asserted by any other party in respect of such right and interest whether by garnishment, levy, attachment or otherwise, such action or claim will be treated as an election to withdraw funds in accordance with Section 14.

18. Termination of Employment. Upon termination of employment for any

reason whatsoever, including but not limited to death or retirement, the balance in the account of a participating employee shall be paid to the employee or his estate.

19. Amendment or Discontinuance of the Plan. The Board shall have the

right at any time and without notice to amend, modify or terminate the Plan, and to authorize by resolution changes to the application of eligibility criteria in Section 3 to employees of the Company's subsidiaries outside the United States when the Board deems such changes to be necessary and appropriate according to laws applicable to such non-U.S. subsidiaries; provided, that no employee's existing rights under any offering already made under Section 4 hereof may be adversely affected thereby, and provided further that no

such amendment of the Plan shall, except as provided in Section 20, increase above 80,000,000 shares the total number of shares to be offered unless shareholder approval is obtained therefor.

20. Changes in Capitalization. In the event of reorganization,

recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, offerings of rights, or any other change in the structure of the common shares of the Company, the Board may make such adjustment, if any, as it may deem appropriate in the number, kind, and the price of shares available for purchase under the Plan, and in the number of shares which an employee is entitled to purchase.

21. Share Ownership. Notwithstanding anything herein to the contrary, no

employee shall be permitted to subscribe for any shares under the Plan if such employee, immediately after such subscription, owns shares (including all shares which may be purchased under outstanding subscriptions under the Plan) possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or of its parent or subsidiary corporations. For the foregoing purposes the rules of Section 425(d) of the Internal Revenue Code of 1986 shall apply in determining share ownership. In addition, no employee shall be allowed to subscribe for any shares under the Plan which permits his rights to purchase shares under all "employee stock purchase plans" of the Company and its subsidiary corporations to accrue at a rate which exceeds \$25,000 of the fair market value of such shares (determined at the time such right to subscribe is granted) for each calendar year in which such right to subscribe is outstanding at any time.

22. Administration. The Plan shall be administered by the Board. The

Board may delegate any or all of its authority hereunder to such committee of the Board or officer of the Company as it may designate. The administrator shall be vested with full authority to make, administer, and interpret such rules and regulations as it deems necessary to administer the Plan, and any determination, decision, or action of the administrator in connection with the construction, interpretation, administration, or application of the Plan shall be final, conclusive, and binding upon all participants and any and all persons claiming under or through any participant.

23. Notices. All notices or other communications by a participant to the

Company under or in connection with the Plan shall be deemed to have been duly given when received by Shareholder Services of the Company or when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

24. Termination of the Plan. This Plan shall terminate at the earliest of

the following:

24.1 December 31, 2002;

24.2 The date of the filing of a Statement of Intent to Dissolve by the Company or the effective date of a merger or consolidation wherein the Company is not to be the surviving corporation, which merger or consolidation is not between or among corporations related to the Company. Prior to the occurrence of either of such events, on such date as the Company may determine, the Company may permit a participating employee to exercise the option to purchase shares for as many full shares as the balance of his account will allow at the price set forth in accordance with Section 5. If the employee elects to purchase shares, the remaining balance of his account will be refunded to him after such purchase.

24.3 The date the Board acts to terminate the Plan in accordance with Section 19 above.

24.4 The date when all shares reserved under the Plan have been purchased.

25. Limitations on Sale of Stock Purchased Under the Plan. The Plan is

intended to provide common stock for investment and not for resale. The Company does not, however, intend to restrict or influence any employee in the conduct of his own affairs. An employee, therefore, may sell stock purchased under the Plan at any time he chooses, subject to compliance with any applicable Federal or state securities laws. THE EMPLOYEE ASSUMES THE RISK OF ANY MARKET FLUCTUATIONS IN THE PRICE OF THE STOCK.

26. Governmental Regulation. The Company's obligation to sell and deliver

shares of the Company's common stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance, or sale of such shares.

[The number of shares in Sections 7, 10, and 19 have been increased to reflect the 2-for-1 stock splits in December 1996, February 1998, and March 1999.]

MICROSOFT CORPORATION
SAVINGS PLUS 401(k) PLAN

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MICROSOFT CORPORATION

SAVINGS PLUS 401(k) PLAN

MICROSOFT CORPORATION has adopted the Microsoft Corporation Savings Plus 401(k) Plan effective January 1, 1987, for the exclusive benefit of its employees. The Microsoft Corporation Savings Plus 401(k) Plan is restated by this document to incorporate prior amendments since the last restatement, effective March 25, 1999.

[Note: As explained in the preceding sentence, the last restatement of the Plan was as of March 25, 1999. This document is an updated restatement, and incorporates the amendments to the Plan that were adopted by Microsoft Corporation between March 25, 1999 and July 1, 2000.]

ARTICLE I

DEFINITIONS

The following words shall have the following meanings unless the context clearly indicates otherwise.

1.1 BENEFICIARY means a person designated by a participant, or by this

Plan if there is no effective designation, to receive benefits payable under this Plan in the event of the participant's death.

1.2 CODE means the Internal Revenue Code of 1986, as amended.

1.3 COMPENSATION is defined and limited as set forth in Appendix I,

attached hereto and incorporated herein.

1.4 EMPLOYEE means any common law employee of the employer who receives

remuneration for personal services rendered to the employer, and any "leased employee" as defined in Code (S) 414(n)(2). For purposes of this Section 1.4, a "leased employee" as defined in Code (S) 414(n)(2) means any person who is not an employee of the employer (as defined in Plan Section 1.6, "recipient") and who provides services to such recipient if (i) such services are provided pursuant to an agreement between the recipient and any other person ("leasing organization"), (ii) such person has performed such services for the recipient (or for the recipient and related persons) on a substantially full-time basis for a period of at least 1 year, and (iii) such services are performed under primary direction or control by the recipient. The definition in the preceding sentence shall be interpreted by applying the definition of "leased employee" under Code (S) 414(n)(2) and any Treasury Regulations thereunder.

1.5 ELIGIBLE EMPLOYEE means a regular employee of the employer who

satisfies the eligibility requirements of section 2.1. For purposes of this Plan, a "regular employee" of the

employer is an employee who is in an approved headcount "regular" employment position with the employer and on the employer's U.S. payroll. An approved headcount "regular" employment position is one that is (1) authorized in writing during the annual or out-of-cycle budgeting process as a "regular" employment position and approved by an officer of Microsoft (or by a Regional Director for positions in subsidiaries of Microsoft) and (2) reflected on the official human resources database of Microsoft or one of its subsidiaries as a "regular" employment position (e.g., "hourly regular" or "salaried regular"). For example, a worker who is reflected on the human resources database as "contingent" or an "agency temp" is not in an approved headcount "regular" employment position even though the contingent or agency temp position was authorized as part of Microsoft's budgeting process. An employee is on an employer's U.S. payroll if the employee is paid from a payroll department of the employer where such payroll department is located within the United States of America, and the employer withholds U.S. employment taxes (e.g., income tax, FICA) from the employee's pay. Under no circumstances are the payroll departments of the employer's foreign branches and subsidiaries treated as U.S. payroll departments of the employer for purposes of this Plan.

Notwithstanding the foregoing, the following persons are not eligible employees and are not eligible to participate in this Plan even if they meet the definition of regular employee of the employer:

- a. interns and visiting researchers;
- b. cooperatives;
- c. apprentices;
- d. nonresident aliens with no U.S. source income;

- e. employees covered by a collective bargaining agreement resulting from negotiations in which retirement benefits were the subject of good faith bargaining and participation in this Plan was not provided for;
- f. leased employees. For purposes of this Section 1.5(f), a leased employee includes any person who provides services to the employer (as defined in Plan Section 1.6, which in the rest of this Section 1.5 may also be referred to as "recipient" or "recipient employer") pursuant to an agreement between such recipient and any other person ("leasing organization"), regardless of (i) the length of time the person has performed such services for the recipient (or for the recipient and related persons), (ii) whether or not the person is an employee of the recipient, (iii) whether or not the person has performed such services for the recipient (or for the recipient and related persons) on a part-time or full-time basis, and (iv) whether or not the person performed services under the primary direction or control by the recipient. This definition of leased employee includes, without limitation, "leased employees" as defined in Code (S) 414(n)(2) and any Treasury Regulations thereunder.
- g. temporary workers engaged through or employed by temporary or leasing agencies, irrespective of the length of time that the workers perform or are expected to perform services at or for the recipient employer, and even if the workers are, or may be reclassified by the courts, the Internal Revenue Service ("IRS") or the U.S. Department of Labor ("DOL") as, employees of the recipient employer;

- h. temporary employees of the employer. For purposes of this Plan, a temporary employee of the employer is an employee of the employer who is hired by the employer to work on a specific project or series of projects which in the aggregate is not expected to exceed six (6) months; and
- i. workers who hold themselves out to the recipient employer as being independent contractors, or as being employed by another company while providing services to the recipient employer, even if the workers are, or may be reclassified by the courts, the IRS or the DOL as, employees of the recipient employer.

1.6 EMPLOYER means MICROSOFT CORPORATION and any subsidiary or affiliate

of Microsoft Corporation which, with MICROSOFT CORPORATION's approval, elects to adopt the Plan for its employees. Employers maintaining the Plan are listed in Appendix II, attached hereto and incorporated herein. No participating employers (other than Microsoft Corporation and its delegates) shall have discretionary authority over the Plan, including, without limitation, the authority to amend the Plan and appoint fiduciaries. The Plan Administrator (and his or her delegates) has discretionary authority under the Plan as provided elsewhere in this Plan. For purposes of applying to this Plan Code (S)(S) 401, 410, 411, 414, 415 and 416, which sections relate to tax-qualified plans generally, to minimum participation standards, to minimum vesting standards, to compensation, to limitations on benefits and contributions, and to top-heavy requirements under qualified retirement plans, all employees of businesses under common control, as defined in Code (S)(S) 414(b) and (c), employees of affiliated service groups under Code (S) 414(m), and employees of any group of employers who must be aggregated and treated as one employer pursuant to Code (S) 414(o), shall be considered to be employed by the employer.

1.7 ERISA means the Employee Retirement Income Security Act of 1974, as

amended.

1.8 PARTICIPANT means an employee who meets the eligibility requirements

of Article II and who has entered the Plan. An employee shall be considered a
participant as long as one or more accounts are maintained under this Plan on
his or her behalf.

1.9 PLAN means the MICROSOFT CORPORATION SAVINGS PLUS 401(k) PLAN.

1.10 PLAN ADMINISTRATOR means the 401(k) Administrative Committee, which

shall consist of the following three positions at Microsoft Corporation:

Vice President, Human Resources
Deputy Chief Financial Officer
Tax and Audit Vice President

Any references in this Plan to the Plan Administrator as "he", "she", "him" or
"her" or references to "his" or "her" with respect to the Plan Administrator
shall be deemed to refer to the 401(k) Administrative Committee or a member of
the 401(k) Administrative Committee, as appropriate under the circumstances.

1.11 PLAN YEAR means the twelve month period beginning January 1 and

ending December 31.

1.12 TRUST FUND means the assets of the trust established and maintained

according to the provisions of this Plan.

1.13 TRUSTEE means any individual, life insurance company, bank or trust

company or a combination of the foregoing, which the employer has designated to
manage and invest the assets of the Plan.

ARTICLE II

ELIGIBILITY TO PARTICIPATE IN PLAN

2.1 ELIGIBILITY AND ENTRY DATE. Each eligible employee who is 18 years of age or older shall be eligible to participate in this Plan except as provided in this Article II. The eligible employee shall be eligible to elect to defer a percentage of his or her compensation on the first entry date occurring after the date the eligibility requirements (e.g., meeting the definition of an eligible employee in Section 1.5 and being at least 18 years of age) are met. The participant's salary deferrals shall commence with the payroll period beginning on the first day of the month that falls after the participant has properly completed and submitted an enrollment application and such application has been processed by the Plan Administrator and the employer's payroll department. It may take several days after an employee becomes an eligible employee before the employee will be able to enroll in the Plan. The Plan Administrator shall establish the enrollment procedures (e.g., require on-line enrollment) from time to time in its sole discretion.

2.2 REEMPLOYMENT. If a former plan participant is reemployed as an eligible employee, that person shall immediately renew participation in the plan as of his or her date of rehire.

2.3 ELECTION AGAINST PARTICIPATION. Any eligible employee may elect not to participate in the Plan at any time for any reason in writing signed by the eligible employee, a copy of which is delivered to the employer.

2.4 ENTRY DATES. Plan entry dates shall be the first day of each month.

ARTICLE III

EMPLOYEE CONTRIBUTIONS

3.1 ELECTION TO DEFER. Each participant may elect, in the manner provided

by the Plan Administrator, to contribute from 1% to 15% of each of his or her compensation payments to a salary deferral account under the Plan, except that the aggregate of such contributions shall not for the plan year exceed the annual limitation on elective deferrals under Code (S) 402(g) in any taxable year, which limitation is increased as permitted by Internal Revenue Service publication to reflect cost-of-living adjustments (\$9,500 for 1997). The employer may, from time to time, change the percentage of salary that may be deferred. Except as authorized by the Plan Administrator, all such contributions shall be by payroll reduction. Contributions shall be transferred to the trust fund on the earliest date by which they can reasonably be segregated from the employer's general assets, but in no event later than the 15th business day of the month following the month in which the employer receives or withholds the employee contributions. For purposes of determining the amount which may be deferred, only compensation earned while the participant is an eligible employee and making salary deferral contributions to the plan shall be considered. A participant may not defer more than 15% of any paycheck or other compensation payment. The 15% maximum limit on deferrals is applied per pay period not to the participant's annual compensation nor his or her total compensation earned while making salary deferral contributions to the Plan.

3.2 DEFERRAL ELECTION DATES. Upon reemployment, an employee may elect to

contribute as of the day he or she is eligible to enter the Plan. All other employees or participants, including employees entering the plan initially, may elect to contribute effective as of the first day of the month that falls after the employee or participant has properly completed

and submitted an enrollment application and such application has been processed by the Plan Administrator and the employer's payroll department. It may take several days after an employee becomes an eligible employee before the employee will be able to enroll in the Plan. The Plan Administrator shall establish the enrollment procedures (e.g., require on-line enrollment) from time to time in its sole discretion. Participants may change their contribution percentage effective as of the first day of any month subsequent to the date they request the change, provided, however, that the first month in which the change may apply shall not be earlier than the first month in which the change to the participant's payroll withholding can reasonably be made. An election to contribute may be made on any date prior to the effective date of the election, in the manner provided by the Plan Administrator.

3.3 TERMINATING AN ELECTION TO DEFER. A participant may terminate an

election to contribute as of the first day of any month, provided notice of termination has been given by the fifteenth day of the previous month in the manner provided by the Plan Administrator. If an employee terminates an election to contribute, he or she must wait until the next entry date before being eligible again to elect to contribute to the Plan.

3.4 DISTRIBUTION OF EXCESS DEFERRALS. Notwithstanding any other provision

of the Plan, excess deferrals (amounts in excess of the annual limitation on elective deferrals under Code (S) 402(g), as increased by a cost of living factor) and income allocable thereto may be distributed no later than April 15 to participants who claim for the preceding calendar year such excess deferrals under two or more plans or to participants who have such excess deferrals under this Plan. A participant may allocate excess deferrals to this Plan by submitting to the Plan Administrator no later than March 1 a statement specifying the excess deferral amount for the preceding calendar year and stating that, if such amount is not

distributed, such excess deferral, when added to amounts deferred under other plans, exceeds the applicable annual limit. The excess deferrals distributed to a participant with respect to a calendar year shall be adjusted for income and, if there is a loss allocable to the excess deferral, shall in no event be less than the lesser of the participant's account under the Plan or the participant's elective deferrals for the calendar year.

ARTICLE IV

EMPLOYER MATCHING CONTRIBUTIONS AND FORFEITURES

4.1 EMPLOYER MATCHING CONTRIBUTIONS. The employer shall contribute funds

to the Plan, from its current or retained profits, and use forfeitures to match a portion of each of a participant's salary deferral contributions. The employer contribution shall match 50% of each of a participant's salary deferral contributions up to six percent of the participant's compensation for the pay period for which the participant's salary deferral is made, for a maximum employer matching contribution of three percent of the compensation paid to the participant for such pay period. The matching contribution shall be allocated to the participant's employer contribution account. The employer may from time to time change the amount of the employer matching contribution, provided any decrease in the matching contribution formula must be effective only for matching elective deferrals after the date of change. Total employer contributions for any plan year shall not exceed the maximum amount which is deductible by the employer for federal income tax purposes. The employer contribution shall be transferred to the trust fund at such times as the employer determines, but such contributions shall in no event be transferred to the trust fund later than the time prescribed by law for the employer to obtain a federal income tax deduction for the plan year for which the contribution is made. Employer contributions shall be credited to participants' employer contribution accounts as of the date of receipt by the plan. For purposes of determining the amount of matching contributions a participant will receive, only compensation earned while the participant is an eligible employee and making salary deferral contributions to the Plan shall be considered. The 3% limit on employer matching contributions is applied to each paycheck given or other compensation payment made to the participant. The 3% limit on matching contributions is applied per pay

period, and not to the participant's annual compensation nor his or her total compensation earned while making salary deferral contributions to the Plan. Notwithstanding the foregoing, any participant whose salary deferrals cease because the Code Section 402(g) limit is reached, and not because the Participant terminated his or her election to defer, shall have his or her compensation earned after the Code Section 402(g) limit was reached considered when determining the maximum amount of matching contributions to be allocated to his or her account. Matching contributions will continue to be made to such participant's account until the match equals the lesser of 50% of his or her deferrals or 3% of the participant's compensation earned while the participant's salary deferral election was in effect (including compensation earned after deferrals reached the applicable 402(g) limit). The amount of the matching contributions made for pay periods occurring after the participant's salary deferral amount reached the 402(g) limit shall be calculated by multiplying the lesser of (i) 3% or (ii) one half of the participant's salary deferral election which was in effect when the 402(g) limit was reached, by his or her compensation for each pay period occurring after the limit was reached.

4.2 ALLOCATION OF FORFEITURES. As of the end of each plan year,

forfeitures which have become available for allocation during such year because of the completion of benefit distributions to terminated participants or terminated participants' completion of a one-year period of severance pursuant to Section 5.6 shall be used first to restore previously forfeited amounts to the employer contribution accounts of former employees who are reemployed before sustaining five consecutive one-year periods of severance. Any remaining forfeiture amounts shall be used to reduce the employer matching contribution for the subsequent plan year. While this Plan is a multiple employer plan (as described in Code (S)413(c)), forfeitures with respect to employees who terminate employment with one employer (as defined in Treasury Regulation

(S)1.413-2(a)(2)) shall be used first to restore previously forfeited amounts to the employer contribution accounts of former employees of such employer who are reemployed before sustaining five consecutive one-year periods of severance. Any remaining amounts from such forfeitures shall be used to reduce the employer matching contribution for the employees of such employer for the subsequent plan year and, if any forfeitures remain after the employer matching contributions for that employer are made for such plan year, such remaining forfeitures shall be used to reduce the employer matching contributions of other employers in the Plan.

ARTICLE V

VESTING - YEARS OF SERVICE

5.1 EMPLOYEE CONTRIBUTIONS. Each participant shall be 100% vested in all amounts in his or her salary deferral account.

5.2 EMPLOYER CONTRIBUTIONS. A participant whose employment is terminated on or after reaching age 65, whose employment is terminated because of a total and permanent disability, or who dies while employed, shall be 100% vested in all amounts in his or her employer contribution account. All other participants who terminate shall be entitled to the vested percentage of their employer contribution account determined in accordance with the following schedule:

Years of Service	Vested Percentage	Forfeited Percentage
Less than 2	0%	100%
2 or more years	100%	0%

In computing years of service, all of an employee's years of service shall be taken into account, except that if an employee has five or more consecutive one-year periods of severance, years of service after such period of severance shall not be taken into account for purposes of determining the nonforfeitable percentage of the employee's accrued benefit derived from employer contributions which accrued before the period of severance. Preparticipation service with certain companies as set forth in Appendix II, attached hereto and incorporated herein, shall be counted toward vesting.

Effective July 8, 1997, an employee who (i) first becomes employed by Microsoft Corporation ("Microsoft") or one of its affiliates (within the meaning of Code Sections 414(b), (c), (m) or (o)) on or after July 8, 1997, and (ii) was previously employed by a company (or a trade or business thereof, hereinafter "Former Employer") which was acquired by or merged with

Microsoft (or an affiliate of Microsoft), shall receive credit for his or her period of service with such Former Employer towards satisfying the vesting service requirements of this Plan, provided, however, that the credit shall only be given to those employees whose employment with Microsoft or one of its affiliates is connected with Microsoft's (or its affiliate's) acquisition of or merger with such Former Employer. This vesting service credit shall be granted effective as of the effective date of the closure of the acquisition of the Former Employer by, or the merger of the Former Employer with, Microsoft (or its affiliate). For informational purposes, the list of Former Employers for which vesting service credit is granted after July 8, 1997 shall be added to Appendix II from time to time, but pursuant to this Section 5.2, the grant of such service credit shall be effective regardless of whether or when the name of the Former Employer is added to Appendix II. In the event a plan of the Former Employer is merged into this Plan, any service credit shall be as specified in Appendix V hereto. Notwithstanding the foregoing, no vesting service credit shall be granted under this paragraph for service with any Former Employer to the extent that this Plan is amended, prior to the closure of the acquisition of or merger with such Former Employer, to expressly deny service credit with respect to service with such Former Employer. Notwithstanding the foregoing, each participant with a positive employer contribution account balance in the Plan on or after March 2, 2000 shall be 100% vested in all amounts that are in his or her employer contribution account on or after March 2, 2000.

5.3 YEARS OF SERVICE. An employee's years of service at any date shall

equal the number of years, including fractional portions of years, which have elapsed between the date the employee first performed an hour of service, or first performed an hour of service upon reemployment, and the date a period of severance begins. If a period of severance is less than twelve months, the period of severance shall be included in determining years of service.

5.4 HOUR OF SERVICE. An hour of service means each hour for which an

employee is paid or entitled to payment for the performance of duties for the employer.

5.5 PERIOD OF SEVERANCE. A period of severance is a period which begins

on the earlier of (i) the date the employee quits, is discharged, retires, dies; or (ii) the first anniversary of the date the employee is absent from service for any other reason, such as disability leave, vacation, or leave of absence; and which ends when the employee performs an hour of service upon reemployment. However, if an employee is absent from employment for maternity or paternity reasons, the period of severance shall begin on the second anniversary of the first date of such absence. The period between the first and second anniversaries of the first date of absence from work is neither a year or fractional year of service, nor a period of severance. An absence for maternity or paternity reasons includes an absence because of the following: pregnancy of the individual, birth of a child of the individual, placement of a child with the individual in connection with the adoption of such child by such individual or caring for such child for a period beginning immediately following such birth or placement.

5.6 FORFEITURES. If, prior to incurring a one-year period of severance,

a participant who is zero percent vested in his or her employer contribution account receives a distribution of his or her entire vested interest in the Plan (e.g., salary deferrals, rollovers) on or due to his or her termination of participation in the Plan, the participant's entire employer contribution account shall be forfeited as of the date of such distribution. If a terminated participant who is zero percent vested in his or her employer contribution account does not receive a distribution of his or her entire vested interest in the Plan prior to incurring a one-year period of severance, his or her entire employer contribution account shall be forfeited as of a date chosen by the Plan Administrator which is on or after the date the participant completes a one-

year period of severance. Forfeited amounts shall be transferred to a separate forfeiture suspense account and made available for allocation as set forth in Article IV. If a terminated participant whose employer contribution account has been forfeited due to either the receipt of a distribution or the occurrence of a one-year period of severance is reemployed before sustaining five consecutive one-year periods of severance, any amount forfeited shall be restored to his or her employer contribution account, unadjusted by any gains or losses. If a reemployed participant's forfeiture was due to receipt of a distribution, the participant shall have neither the right nor obligation to repay the distributed amount to the Plan. Restorations of accounts shall be funded first from forfeitures held in the suspense account, and if such forfeiture amounts in the suspense account are not sufficient to restore the accounts, then from additional Company contributions. While this Plan is a multiple employer plan, the employer with the primary responsibility to make any Company contributions that are required to restore a rehired employee's account shall be the employer from which the employee terminated prior to being rehired. Upon the complete termination of the Plan, any terminated participant who, prior to the Plan's date of termination, had not (i) incurred five consecutive one-year periods of severance, nor (ii) received a distribution of his or her entire vested interest in the Plan, shall have any amount which was forfeited due to the prior occurrence of a one-year period of severance restored, unadjusted by any gains or losses, and such restored amount shall be nonforfeitable.

ARTICLE VI

PARTICIPANTS' ACCOUNTS AND INVESTMENTS

6.1 INDIVIDUAL ACCOUNTS. The trustee shall maintain records to show

the interest in the Plan of each participant and former participant. Such records shall be in the form of individual accounts. When appropriate, a participant shall have two accounts, a salary deferral account and an employer contribution account. The maintenance of individual accounts is only for accounting purposes, and a segregation of the assets of the trust fund to each account shall not be required. Notwithstanding the foregoing, to the extent provided in a written loan policy, a loan made to a participant will be treated as a participant direction of investment. The participant alone shares in any principal and interest paid on the loan, and he or she alone bears any expense or loss incurred in connection with the loan. The Trustee will reflect the participant's loan on his or her account. Distributions and withdrawals made from an account shall be charged to the account as of the date paid. Each participant and former participant shall be advised from time to time, but at least once a year, as to the status of his or her account or accounts.

6.2 INVESTMENT FUNDS. The trust fund shall consist of the following

investment funds: common stock funds, bond funds, income funds, money market funds, the Microsoft Corporation stock fund, and any other funds or investment vehicles selected by the employer, including without limitation participant directed brokerage accounts. The employer may change the investment funds from time to time. Each participant and former participant shall direct the trustee as to what portion of his or her accounts shall be deposited in each fund (or, in the case of a Participant loan pursuant to Article XIX, what portion of his or her account shall be loaned). If a participant or former participant wishes to utilize more than one investment fund, he or she shall designate the percentage of his or her account balances to be invested in each fund, and the

percentages designated shall be in 1% increments. The trust fund may hold qualified employer securities and qualified employer real estate in any amount. The Plan is intended to constitute a plan described in ERISA (S) 404(c), and the fiduciaries of the Plan may be relieved in accordance with ERISA (S) 404(c) of liability for any losses which are the direct and necessary result of investment instructions given by a participant or former participant.

6.3 CHANGING ACCOUNT INVESTMENTS. Up to six times in any plan year, a

participant may change his or her direction as to the funds into which his or her account will be invested. The Plan Administrator may change the number of times that changes may be made, and the procedures for making changes in investment elections, at any time and from time to time.

6.4 PROCEDURES. The Plan Administrator shall adopt such rules and

procedures as it deems advisable with respect to the direction of Plan investments by participants, including without limitation the procedure for allocating and charging fees, expenses or other charges connected with certain investment funds to the accounts of those participants who choose to invest in such funds. Any such rules and procedures shall be applied in a nondiscriminatory manner.

6.5 VALUATION OF ACCOUNTS. As often as directed by the employer, the

trustee shall value the trust fund assets at fair market value and the Plan Administrator shall adjust the net credit balances in the accounts of participants and former participants, upward or downward, to reflect the allocation to the participant's or former participant's account of investment earnings, gains and losses, expenses paid out of the trust fund, and contributions made and allocated to and distributions and withdrawals from the participant's or former participant's account. In addition, as of the end of the fiscal quarter of each plan year and at such

other times as the Plan Administrator shall reasonably determine, the Plan Administrator shall adjust the net credit balances in the accounts of participants and former participants in the trust fund, upward or downward, pro rata, so that the aggregate of such net credit balances will equal the net worth of each investment fund of the trust fund, using fair market values as determined by the trustee and after such net worth for the appropriate investment fund has been reduced by any expenses (to the extent not paid directly by the employer), withdrawals, distributions and transfers chargeable to that investment fund which have been incurred but not yet paid. All determinations made by the trustee with respect to fair market values and net worth shall be made in accordance with generally accepted principles of trust accounting, and such determinations when so made by the trustee shall be conclusive and binding upon all persons having an interest under the Plan.

ARTICLE VII

PAYMENT OF ACCOUNT BALANCES UPON TERMINATION, DEATH, DISABILITY,

QUALIFIED DOMESTIC RELATIONS ORDERS,

SALE OF TRADE OR BUSINESS

7.1 TERMINATION OF EMPLOYMENT. Upon termination of employment for any

reason other than death or disability, the participant shall elect to receive his or her balances upon termination or upon reaching age 65, or on any date between termination and age 65 at the participant's election, except that if the value of the participant's accounts does not exceed \$5,000 (and did not exceed \$5,000 at the time of any prior distribution), payment shall be made as soon as practicable after termination. Account balances shall be valued as of the most recent valuation date prior to date of payment and shall be paid in a single cash payment, except that the participant or former participant may elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund. Account balances shall be distributed no later than 60 days after the latest of (i) the plan year in which the participant terminates or (ii) the plan year in which the participant reaches age 65. Notwithstanding the foregoing, a person's entire interest must be distributed, or must begin to be distributed, no later than the first day of April following the calendar year in which the participant reaches age 70-1/2. Furthermore, benefit payments will not be made to a participant who has a vested account balance greater than \$5,000, prior to the participant attaining age 70 1/2 unless and until the participant files a proper claim for benefits with the Plan Administrator.

7.2 PAYMENT AT 59-1/2. A participant may elect to receive a distribution

of all or a portion of his or her vested account balance or balances under this Plan upon or after reaching age 59-1/2. Payment shall be made in a single cash payment, except that the participant may

elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund.

7.3 PAYMENT OF ACCOUNT BALANCES UPON DEATH. If a participant dies while

employed, his or her employer contribution account shall be 100% vested. Each participant shall designate a beneficiary or beneficiaries to receive all amounts credited to his or her accounts in the event of the participant's death. The accounts shall be valued as of the most recent valuation date prior to payment and shall be paid to the designated beneficiary or beneficiaries as soon as feasible after the death. Payment shall be made in a single cash payment, except that the beneficiary or beneficiaries may elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund. Notwithstanding the foregoing, if the deceased participant's vested account balance exceeds \$5,000 and the designated beneficiary is the participant's spouse, the spouse may elect to delay distribution of the lump sum amount until any date on or before the date the Participant would have been age 65. If the deceased participant's vested account balance exceeds \$5,000 and the beneficiary is a designated beneficiary who is not the participant's spouse, the beneficiary may elect to delay distribution of the lump sum amount until any date on or before the end of the calendar year in which the fifth anniversary of the participant's date of death occurs. Beneficiaries who are not designated beneficiaries may not delay distribution of the death benefit. If a participant is married, the participant may not designate a beneficiary other than his or her spouse without the spouse's written consent which has been witnessed by a plan representative or a notary public. If a participant fails to designate a beneficiary, or the participant has no surviving beneficiary, the amounts payable to a married participant shall be distributed to his or her spouse and the benefits of a single participant shall be distributed to his or her estate.

7.4 PAYMENT OF ACCOUNT BALANCES UPON DISABILITY. If a participant's

employment is terminated prior to retirement because of a total and permanent disability, the employer contribution account shall be 100% vested and payment of the participant's account balances shall be made as soon as practicable. A participant shall be deemed to be totally and permanently disabled if the participant meets the definition of having a total disability under the employer-provided long-term disability plan. The participant's accounts shall be valued as of the most recent valuation date prior to payment and shall be paid in a single cash payment within sixty (60) days after the disability has been established under this section, except that the participant may elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund. Notwithstanding the foregoing, if the value of the disabled participant's accounts exceeds \$5,000 (or exceeded \$5,000 at the time of a prior distribution), the participant may elect to delay receipt of the balance of his or her accounts until reaching age 65. Notwithstanding the foregoing, benefit payments will not be made to a participant who has a vested account balance greater than \$5,000, prior to the participant attaining age 70 1/2 unless and until the participant files a proper claim for benefits.

7.5 EARLY RETIREMENT. Upon reaching age 55, a participant may elect early

retirement and terminate employment. Each such participant shall receive the value of his or her salary deferral account and the vested portion of his or her employer contribution account, which shall be paid in the time and manner described in Section 7.1.

7.6 DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS. Distribution

to an alternate payee under a qualified domestic relations order as defined in Code (S) 414(p) may be made at any time, including prior to the participant's attainment of earliest retirement age if the court order specifies distribution at an earlier time or permits an agreement

between the Plan and the alternate payee to authorize an earlier distribution and the alternate payee consents to the distribution.

7.6.1 Qualified Status of Order. The Plan Administrator shall

establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator shall promptly notify the participant and any alternate payee named in the order in writing of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the participant and each alternate payee in writing of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations.

7.6.2 Amounts Payable During Determination Process. If any portion of

the participant's nonforfeitable accrued benefit is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, the Trustee shall make a separate accounting of the amounts payable. If the Plan Administrator determines the order is a qualified domestic relations order within 18 months of the date amounts first are payable following receipt of the order, the amounts shall be payable in accordance with the order. If the Plan Administrator does not make its determination of the qualified status of the order within the 18 month determination period, the amounts shall be payable in the manner in which they would be distributed if the order did not exist. The order shall be applied prospectively if the Plan Administrator determines after the 18 month period that the order is a qualified domestic relations order.

7.6.3 Investment of Amounts Payable. To the extent it is not

inconsistent with the provisions of the qualified domestic relations order, any partitioned funds payable to the alternate payee(s) may be invested in a segregated subaccount and may be invested in fixed income investments or, at the direction of the alternate payee(s), in any investment funds available to participants. If an order specifies that the alternate payee is entitled to any portion of the account of a participant who has an outstanding Plan loan, the loan will continue to be held in the participant's account and will not be transferred to an account for the alternate payee. A segregated subaccount shall remain a part of the Trust, but it alone shall share in any income it earns, and it alone shall bear any expense or loss it incurs. The Trustee shall make any payments or distributions to the alternate payee(s) by separate benefit checks or other separate distribution.

7.7 SALE OF TRADE OR BUSINESS. Distributions may also be made in the event

of termination of the Plan, or any part thereof, as described in Code (S) 401(k)(a)(A)(i) and the regulations thereunder, or a disposition of the assets of a trade or business or the stock of a subsidiary with respect to employees who continue employment with the acquiring corporation or subsidiary as described in Code (S) 401(k)(10)(A)(ii) and (iii) and the regulations thereunder. In no event may amounts attributable to 401(k) elective deferrals be distributed earlier than upon one of the following events:

(a) Retirement, death, disability or separation from service (see Code (S) 401(k)(10)(A)(i));

(b) Termination of this Plan without establishment of a successor plan (see Code (S) 401(k)(10)(A)(i));

(c) The employee's attainment of age 59-1/2;

(d) The sale or other disposition by a corporation to an unrelated corporation, which does not maintain this Plan, of substantially all of the assets used in a trade or business, but only with respect to employees who continue employment with the acquiring corporation (see Code (S) 401(k)(10)(A)(ii));

(e) The sale or other disposition by a corporation of its interest in a subsidiary to any unrelated entity which does not maintain this Plan, but only with respect to employees who continue employment with the subsidiary (see Code (S) 401(k)(10)(A)(iii)).

7.8 NOTICE OF RIGHT TO DEFER PAYMENT. A participant whose total account

balances exceed (or have exceeded at the time of a prior distribution) \$5,000 shall be given an explanation of the optional forms of benefit available, and of his or her right to defer receipt of distribution. If a participant fails to consent to an immediate distribution, it shall be deemed an election to defer the commencement of payment of any benefit. However, any election to defer the receipt of benefits shall not apply with respect to distributions which are required under Code (S) 401(a)(9). Notice of the rights specified under this Section 7.8 shall be provided no less than 30 days and no more than 90 days before the "Annuity Starting Date." The "Annuity Starting Date" is the first day on which all events have occurred which entitle the participant to receive a distribution (e.g., termination of employment, consent to distribution). Distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given if:

(A) the plan administrator clearly informs the participant that the participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(B) the participant, after receiving the notice, affirmatively elects a distribution.

Written consent of the participant to the distribution must not be made before the participant receives the notice and must not be made more than 90 days before the Annuity Starting Date. No consent shall be valid if a significant detriment is imposed under the plan on any participant who does not consent to the distribution. Consent to an immediate distribution is not required after the participant has reached age 65 or has died.

7.9 DIRECT ROLLOVER DISTRIBUTIONS. Notwithstanding any provision of the

Plan to the contrary and subject to the following limitations, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan. Direct rollovers may not be divided among several plans. A participant may elect to receive a distribution partly as a direct rollover and partly in a direct payment to the participant only if the direct rollover amount equals or exceeds \$500.

The following definitions shall apply to this section 7.9:

(a) Eligible Rollover Distribution. An eligible rollover distribution

is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include:

(i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more;

(ii) any mandatory minimum distribution at age 70 1/2 under Code (S) 401(a)(9); and

(iii) the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(b) Eligible Retirement Plan. An eligible retirement plan is an -----
individual retirement account described in Code (S) 408(a), an individual retirement annuity described in Code (S) 408(b) (other than an endowment contract), an annuity plan described in Code (S) 403(a), or a qualified trust described in Code (S) 401(a) of a defined contribution plan, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(c) Distributee. A distributee includes an employee or former -----
employee. In addition, the employee's or former employee's surviving spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code (S) 414(p), are distributees with regard to the interest of the spouse or former spouse.

ARTICLE VIII

HARDSHIP WITHDRAWALS

If a participant has a financial hardship, the participant may withdraw so much of the following amount as is necessary to meet the hardship:

- (a) his or her salary deferral contributions plus net investment gains and earnings on such deferrals as of December 31, 1988, plus
- (b) his or her salary deferral contributions made after December 31, 1988, minus
- (c) any prior withdrawals, distributions, assignments via qualified domestic relations orders, expenses and net investment losses made or incurred with respect to the amounts described in (a) or (b) above.

The salary deferral contributions will be valued as of the valuation date on or immediately before the withdrawal. Hardship withdrawals may not be made from net investment gains and earnings which have accrued after December 31, 1988 on salary deferral contributions. Notwithstanding the foregoing, a participant who has an outstanding loan from the Plan (or must take such a loan prior to the hardship distribution pursuant to this Article VIII) may not take a hardship distribution in an amount which exceeds 40% of his or her vested account balance.

A hardship withdrawal shall be available for any of the following reasons:

- (a) Medical expenses incurred by the participant, the participant's spouse, or any dependents of the participant or expenses necessary for those persons to obtain medical care;
- (b) Purchase (excluding mortgage payments) of a principal residence for the participant;

- (c) Payment of tuition, related educational fees, and room and board expenses, for the next 12 months of post-secondary education for the participant, his or her spouse, children or dependents;
- (d) Preventing the eviction of the participant from his or her principal residence or foreclosure on the mortgage of the participant's principal residence; or
- (e) Need due to critical financial emergencies, defined as circumstances of sufficient severity that a participant is confronted by present or impending financial ruin. The need shall be based on the participant's net worth statement, which shall form an objective criterion for determining hardship.

A participant who receives a hardship distribution

- (a) shall not receive a distribution in excess of the participant's immediate and heavy financial need;
- (b) shall, prior to the distribution, have exercised all vested stock options and received all other distributions and loans available under all plans maintained by the employer;
- (c) shall not make elective contributions or have nonelective participant contributions made to this Plan or any other retirement plan, stock purchase plan, stock option or similar plan of the employer, until the first January 1 or July 1 following the one-year anniversary of the date the hardship distribution is made; and
- (d) shall not make contributions to any plan of the employer, including this Plan, for his or her tax year immediately following the tax year in which the hardship distribution was received, in excess of (i) the annual limit applicable under Code (S) 402(g) (\$9,500 for 1997), as increased by a cost of living factor, minus

(ii) the amount of participant contributions in the tax year of the hardship distribution.

Hardship withdrawals may not be taken from a Participant's employer contribution account, rollover account, or acquisition rollover account. Amounts transferred from the plans of other employers pursuant to a plan merger (e.g., see Appendix V to this Plan) or plan-to-plan transfer of plan assets may in some cases be held in the acquisition rollover account, and therefore be unavailable for hardship withdrawals.

ARTICLE IX

LIMITATIONS ON EMPLOYEE AND EMPLOYER CONTRIBUTIONS

9.1 LIMITATIONS ON TOTAL CONTRIBUTIONS TO ACCOUNTS. Notwithstanding

anything in this Plan to the contrary, the total of employee and employer contributions and forfeitures allocated to a participant's accounts under this and any other employer sponsored defined contribution plan for any year shall not exceed the applicable limits described in Code (S) 415 (e.g., the lesser of (i) 25% of the participant's compensation (as defined in Section 9.9), or (ii) \$30,000). Effective March 31, 1988, the year used to determine the limits on annual additions shall be the calendar year. If such additions exceed the limitation, the Plan shall distribute to the participant the participant's elective deferrals to this Plan (within the meaning of Code (S) 402(g)(3)) and any gains attributable thereto to the extent that the distribution would reduce the excess amounts in the participant's account (see Treasury Regulations (S) 1.415-6(b)(6)(iv)). Any remaining excess annual additions to the participant's account for the year shall be used to reduce future employer contributions pursuant to Treasury Regulation (S) 1.415-6(b)(6)(ii).

9.2 AVERAGE ACTUAL DEFERRAL PERCENTAGE TESTS. With respect to participant

contributions in a plan year, the actual deferral percentage shall satisfy one of the tests described in (a) or (b) below. (Definitions of words used in the tests are given in Section 9.9.)

(a) The average actual deferral percentage for eligible participants who are highly compensated employees for the plan year shall not exceed the average actual deferral percentage for eligible participants who are non-highly compensated employees for the plan year multiplied by 1.25;

(b) the average actual deferral percentage for eligible participants who are highly compensated employees for the plan year shall not exceed the average actual deferral percentage for eligible participants who are non-highly compensated employees for the plan year multiplied by 2, provided that the average actual deferral percentage for eligible participants who are highly compensated employees does not exceed the average actual deferral percentage for eligible participants who are non-highly compensated employees by more than two (2) percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to prevent the multiple use of this alternative limitation with respect to any highly compensated employee.

9.3 ELECTIVE DEFERRALS OR QUALIFIED EMPLOYER DEFERRAL CONTRIBUTIONS UNDER

TWO OR MORE PLANS OR ARRANGEMENTS. The actual deferral percentage for any

eligible participant who is a highly compensated employee for the plan year and who is eligible to have elective deferrals or qualified employer deferral contributions allocated to his account under two or more plans or arrangements described in Code (S) 401(k) that are maintained by the employer or an affiliated employer shall be determined as if all such elective deferrals and qualified employer deferral contributions were made under a single arrangement.

9.4 ELECTIVE DEFERRALS, QUALIFIED EMPLOYER DEFERRAL CONTRIBUTIONS, AND

COMPENSATION OF FAMILY MEMBERS. For purposes of determining the actual deferral

percentage of a participant who is a highly compensated employee subject to the family aggregation rules of Code (S) 414(q)(6), the elective deferrals, qualified employer deferral contributions and compensation of such participant shall include the elective deferrals, qualified employer deferral contributions and compensation of family

members, and such family members shall be disregarded in determining the actual deferral percentage for participants who are non-highly compensated employees.

The determination and treatment of the elective deferrals, qualified nonelective contributions and actual deferral percentage of any participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

9.5 ACTIONS AVAILABLE WHEN TESTS UNSATISFIED. In the event that the Plan

Administrator shall at any time have reasonable cause to conclude that neither of the tests will be satisfied for a plan year, then the Plan Administrator shall take such actions as the Plan Administrator deems necessary in accordance with Appendix III, attached hereto and incorporated herein.

9.6 DISTRIBUTION OF EXCESS CONTRIBUTIONS. Excess contributions and income

allocable thereto shall be distributed no later than the last day of each plan year to participants on whose behalf such excess contributions were made for the preceding plan year. "Excess contributions" shall mean the difference between the participant contributions made by highly compensated employees and the maximum amount of allowable participant contributions for those employees. The income allocable to excess contributions shall be determined by multiplying income allocable to the participant's elective deferrals and qualified employer deferral contributions for the plan year by a fraction, the numerator of which is the excess contribution on behalf of the participant for the preceding plan year and the denominator of which is the sum of the participant's account balances attributable to elective deferrals and qualified employer deferral contributions on the last day of the preceding plan year. The excess contributions which would otherwise be distributed to the participant shall be adjusted for income; shall be reduced, in accordance with regulations, by the amount of excess deferrals

distributed to the participant; shall, if there is a loss allocable to the excess contributions, in no event be less than the lesser of the participant's account under the Plan or the participant's elective deferrals and qualified employer deferral contributions for the plan year. Amounts distributed under this section shall be treated as distributions from the participant's elective deferral account and shall be treated as distributed from the participant's qualified employer deferral contribution account only to the extent such excess contributions exceed the balance in the participant's elective deferral account.

9.7 AVERAGE CONTRIBUTIONS PERCENTAGE TESTS. With respect to participant

contributions and employer matching contributions, the average contribution percentage shall satisfy one of the tests described in, (a) or (b) below (definitions of words used in the tests are given in Section 9.9).

(a) The average contribution percentage for eligible participants who are highly compensated employees for the plan year shall not exceed the average contribution percentage for eligible participants who are non-highly compensated employees for the plan year multiplied by 1.25;

(b) the average contribution percentage for eligible participants who are highly compensated employees for the plan year shall not exceed the average contribution percentage for eligible participants who are non-highly compensated employees for the plan year multiplied by 2, provided that the average contribution percentage for eligible participants who are highly compensated employees does not exceed the average contribution percentage for eligible participants who are non-highly compensated employees by more than two (2) percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to

prevent the multiple use of this alternative limitation with respect to any highly compensated employee.

9.8 DISTRIBUTION OF EXCESS AGGREGATE CONTRIBUTIONS. Excess aggregate

contributions and income allocable thereto shall be distributed no later than the last day of each plan year to participants to whose accounts employee contributions or matching contributions were allocated for the preceding plan year. "Excess aggregate contributions" shall mean the amount described in Code (S) 401(m)(6)(B). The income allocable to excess aggregate contributions shall be determined by multiplying the income allocable to the participant's employee contributions and matching employer contributions for the plan year by a fraction, the numerator of which is the excess aggregate contributions on behalf of the participant of the preceding plan year and the denominator of which is the sum of the participant's account balances attributable to employee contributions and matching employer contributions on the last day of the preceding plan year. The excess aggregate contributions to be distributed to a participant shall be adjusted for income, and, if there is a loss allocable to the excess aggregate contribution, shall in no event be less than the lesser of the participant's account under the Plan or the participant's employee contributions and matching contributions for the plan year. Excess aggregate contributions shall be distributed from the participant's matching contribution account in proportion to the participant's employee contributions and matching contributions for the plan year.

9.9 DEFINITIONS APPLICABLE TO DISCRIMINATION TESTS. For purposes of this

Article, the following definitions shall be used:

Actual deferral percentage shall mean the ratio (expressed as a percentage)

of effective deferrals and qualified employer deferral contributions on behalf
of the eligible participant for the plan year to the eligible participant's
compensation for the plan year.

Average actual deferral percentage shall mean the average (expressed as a

percentage) of the actual deferral percentages of the eligible participants in a
group.

Compensation shall mean wages within the meaning of Code (S) 3401(a) and

all other payments of compensation to an employee by his employer (in the course
of the employer's trade or business) for which the employer is required to
furnish the employee a written statement under Code (S)(S) 6041(d), 6051(a)(3),
and 6052. Compensation excludes amounts paid or reimbursed by the employer for
moving expenses incurred by an employee, but only to the extent that at the time
of the payment it is reasonable to believe that these amounts are deductible by
the employee under Code (S) 217. Compensation shall be determined without regard
to any rules under Code (S) 3401(a) that limit the remuneration included in
wages based on the nature or location of the employment or the services
performed (such as the exception for agricultural labor in Code (S) 3401(a)(2)).
For purposes of performing the average actual deferral percentage test and the
average contributions percentage test, the annual compensation of each employee
taken into account shall not exceed the limitation under Code (S) 401(a)(17),
which is the OBRA '93 annual compensation limit. The OBRA '93 annual
compensation limit is \$150,000 (\$160,000 in 1997), as adjusted by the
Commissioner for increases in the cost of living in accordance with Code (S)
401(a)(17)(B). In addition, in performing the average actual deferral percentage
test and the average contributions percentage test for any year, Microsoft
Corporation may elect to include in the definition of compensation for all
employees the elective contributions that are made by the

employer on behalf of its employees that are not includible in gross income under Code (S) 125 (cafeteria plan) or Code (S) 402(e)(3) (cash or deferred arrangement).

Elective deferrals shall mean contributions made to the Plan during the

plan year by the employer, at the election of the participant, in lieu of cash compensation and shall include contributions made pursuant to a salary reduction agreement.

Eligible participant shall mean any employee of the employer who is

otherwise authorized under the terms of the Plan to have elective deferrals or qualified employer deferral contributions allocated to his or her account for the plan year.

Family Member shall mean an individual described in Code (S) 414(q)(6)(B).

Highly Compensated Employee shall mean an individual described in Code (S) 414(q).

Inactive Participant shall mean any employee or former employee who has

ceased to be an eligible employee and on whose behalf an account is maintained under the Plan.

Matching contribution shall mean any contribution to the Plan made by the

employer for the plan year and allocated to a participant's account by reason of the participant's employee contributions or elective deferrals.

Non-highly compensated employee shall mean an employee of the employer who

is neither a highly compensated employee nor a family member.

Participant shall mean any employee of the employer who has met the

eligibility and participation requirements of the Plan.

Qualified employer deferral contributions shall mean qualified nonelective

contributions taken into account under the terms of the Plan in determining the actual deferral percentage.

Qualified nonelective contributions shall mean contributions (other than

matching contributions) made by the employer and allocated to participants' accounts that the participant

may not elect to receive in cash until distributed from the Plan; that are 100 percent vested and nonforfeitable when made; and that are not distributable under the terms of the Plan to participants or their beneficiaries except in events upon which elective deferrals may be distributed as described in Section 7.7(a) through (e) of this Plan.

ARTICLE X

ROLLOVER CONTRIBUTIONS

10.1 PERMITTED ROLLOVERS. Subject to terms and conditions established by

the Plan Administrator, an employee, whether or not a participant, may transfer rollover or direct rollover amounts to the trust from other eligible retirement plans as permitted under, and pursuant to the provisions of, Code (S)(S) 402(c) and 401(a)(31), respectively. The Plan Administrator shall require written certification that the contribution qualifies under Code (S)(S) 402(c) or 401(a)(31), respectively.

10.2 VESTING AND ACCOUNTING. Rollover contributions and earnings shall be

100% vested and shall be accounted for separately in a rollover account. All rollover contributions shall be invested and reinvested along with the assets of the Plan and treated in all respects as other assets of the Plan.

10.3 DISTRIBUTION UPON TERMINATION. The rollover account shall be

distributed at the same time and in the same manner as the employee's other accounts. If an employee terminates with no other amounts payable from this Plan, the rollover account shall be valued as of the valuation date coinciding with or preceding the date of termination and shall be paid in a single sum within 60 days after the end of the plan year.

ARTICLE XI

ADMINISTRATION

11.1 NAMED FIDUCIARY. The employer and the Plan Administrator are named

fiduciaries for purposes of ERISA. The Plan Administrator is the named fiduciary with the authority to control and manage the operation and administration of the Plan, and is the "administrator" of the Plan within the meaning of ERISA Section 3(16)(A).

11.2 PLAN ADMINISTRATOR. The Plan Administrator may from time to time

employ agents to aid in the administration of the Plan. The Plan Administrator shall have the sole power and discretion to interpret and construe the provisions of this Plan and to determine all questions, including both interpretive and factual questions arising in connection with the administration, interpretation and application of the Plan, and shall supply any omission or reconcile any inconsistency in the Plan. The Plan Administrator's authority includes, without limitation, the sole authority to interpret and construe the Plan and determine a participant's eligibility to participate in the Plan and to receive benefits, and amount of benefits, if any. Any such action shall be final and conclusive upon all persons. The Plan Administrator shall decide any disputes which may arise under this Plan relative to the rights of employees, past and present, and their beneficiaries. Further, the Plan Administrator shall adopt such rules as it deems necessary, and give instructions and directions to the trustee as necessary and, in general, shall direct the administration of the Plan. The Plan Administrator's authority includes, but is not limited to, the following:

- a. to compute, certify, and direct the trustee with respect to the amount and the kind of benefits to which any participant shall be entitled hereunder;

- b. to authorize and direct the trustee with respect to all nondiscretionary or otherwise directed disbursements from the trust;
- c. to compute and certify to the employer and to the trustee from time to time the sums of money necessary or desirable to be contributed to the Plan;
- d. to consult with the employer and the trustee regarding the short and long-term liquidity needs of the Plan in order that the trustee can exercise any investment discretion in a manner designed to accomplish specific objectives; and
- e. to prepare and implement a procedure to notify eligible employees that they may elect to have a portion of their compensation deferred or paid to them in cash.

11.3 FACILITY OF PAYMENTS. Whenever, in the Plan Administrator's opinion,

a person who is entitled to receive any payment of a benefit or installment thereof is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the trustee to make payments to such person or to the participant's legal representative or to a relative or friend of the participant for his or her benefit. Any payment of a benefit or installment thereof made in accordance with the provisions of this section shall be a complete discharge of any liability for the making of such payment under this Plan.

11.4 APPOINTMENT OF INVESTMENT MANAGER. The employer shall have the

authority described in ERISA (S) 402(c)(3) to appoint one or more investment managers and contract with each for management of any part of the trust fund for a reasonable fee. Selection and retention of an investment manager shall be in the trustee's discretion. Each investment

manager shall have the power to manage, acquire, and dispose of the part of the trust fund designated by the employer. The investment manager shall have no responsibility for plan operation or administration.

11.5 INVESTMENT MANAGER AND TRUSTEE. If an investment manager is

appointed:

(a) The trustee shall segregate the trust fund or any part thereof into one or more investment accounts. The trustee shall appoint an investment manager for each account and designate the part of the trust fund to be managed by each investment manager.

(b) The trustee may terminate at any time the authority of an investment manager to manage an account. In such event or upon resignation of an investment manager, the trustee may appoint a successor investment manager for the account.

(c) Each investment manager to whom any fiduciary responsibility with respect to the Plan or the trust funds allocated is delegated, shall discharge such responsibility in accordance with the standards set forth in ERISA 404(a) and shall acknowledge such responsibility in writing.

11.6 DELEGATION OF AUTHORITY AND DUTIES BY PLAN ADMINISTRATOR. The 401(k)

Administrative Committee may allocate to a specific 401(k) Administrative Committee member or members the authority and duty to carry out some or all of the Plan Administrator's fiduciary responsibilities under the Plan. In addition, the 401(k) Administrative Committee (or a 401(k) Administrative Committee member who has been allocated authority and duties pursuant to the preceding sentence) may designate one or more persons, positions, committees or entities either within or outside of Microsoft Corporation to carry out some or all of the Plan Administrator's fiduciary responsibilities under the Plan. Any

such designee and any 401(k) Administrative Committee member who has been allocated authority shall have the same authority and discretion as would the 401(k) Administrative Committee in performing the delegated or allocated responsibilities. The 401(k) Administrative Committee's allocation or delegation described in this Section 11.6 may include, without limitation, its fiduciary authority and duties under Articles XI and XII, including authority, power and discretion that is assigned solely to the Plan Administrator. The Plan Administrator's allocation or delegation may be made either orally or in writing, and shall be effective only after the person receiving the allocation or delegation agrees to accept the authority and duties allocated or delegated.

ARTICLE XII

CLAIMS PROCEDURE

12.1 DENIAL OF CLAIMS. Any denial of a claim for benefits under the trust

by a participant or beneficiary shall be stated in writing and delivered or mailed to the participant or beneficiary. Such notice shall set forth the specific reasons for the denial in a manner that may be understood without legal or actuarial counsel. Any denial of a claim may be appealed to the Plan Administrator by sending to the Plan Administrator a written request for review within 90 days after receiving notice of denial. The Plan Administrator shall give the applicant an opportunity to review pertinent documents in preparing the applicant's request for review. The request shall set forth all grounds on which it is based, supporting facts and other matters which the applicant deems pertinent. The Plan Administrator may require the applicant to submit such additional facts, documents or other material as it deems necessary or advisable in making its review and shall act upon such request within 60 days after the receipt thereof, unless special circumstances require further time. If the Plan Administrator confirms the denial in whole or in part, the Plan Administrator shall notify the applicant, setting forth in a manner calculated to be understood by the applicant, specific reasons for denial and specific references to Plan provisions on which the decision was based.

12.2 ARBITRATION. Any controversy or claim arising out of or relating to

this Plan, which is asserted by any person as an employee, former employee, participant, or beneficiary, shall be settled by arbitration in accordance with the Commercial Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator shall be entered in a court having jurisdiction thereof. All such arbitration cases shall be heard by an attorney licensed in the jurisdiction where the arbitration hearing is to occur.

ARTICLE XIII

NONALIENATION PROVISION

No participant shall have the right or power to alienate, anticipate, commute, pledge, encumber, or assign any of the funds allocated to the participant under the terms of this Plan, and such funds shall not be subject to seizure by any creditor of the participant under any writ or proceedings at law or in equity; provided, that the terms of this Article shall not prohibit the creation, assignment or recognition of a right to any benefit payable with respect to a participant if such creation, assignment or recognition of a right is made under a qualified domestic relations order defined under Code (S) 414(p).

ARTICLE XIV
TERMINATION

14.1 PLAN TERMINATION. The employer shall have the right to terminate the

Plan at any time as to its employees by action of its board of directors or by action of any committee or officer to whom such board of directors has delegated the right to terminate the Plan. In addition, Microsoft Corporation reserves the right to terminate the Plan in its entirety at any time by action of the Board of Directors of Microsoft Corporation or by action of any committee or officer to whom the Board of Directors has delegated such authority to terminate the Plan, and the Plan shall terminate in its entirety unless Microsoft Corporation permits employers wishing to continue the Plan as to their respective employees to arrange a spin-off of Plan assets attributable to accounts of their employees.

14.2 NO REVERSION TO EMPLOYER -- ACCRUED RIGHTS NONFORFEITABLE. No

termination shall have the effect of vesting in the employer any part of the principal or income of the plan funds. In the case of a termination, partial termination, or complete discontinuance of contributions, the rights of all affected employees accrued to the date of such termination or partial termination, to the extent funded as of such date, shall be nonforfeitable. See Section 5.6 of this Plan for the treatment of certain forfeitures upon complete termination of the Plan.

14.3 DISTRIBUTION UPON TERMINATION OR DISCONTINUANCE OF CONTRIBUTIONS.

Upon termination of the Plan or a complete discontinuance of contributions to the Plan the interests of all participants shall fully vest and distribution shall be made to each participant in the form and manner determined by the Plan Administrator and as permitted by the Code and ERISA. See Section 7.7 of this Plan.

ARTICLE XV
MERGER OR CONSOLIDATION

In the case of any merger or consolidation with, or transfer of, assets or liabilities to any other retirement Plan, the termination benefits of participants, former participants and beneficiaries immediately subsequent to the merger, consolidation or transfer shall be equal to or greater than the termination benefits immediately prior to such merger, consolidation, or transfer. In the case of any plan which has merged into this Plan or any assets and liabilities which have been transferred to this Plan from another plan, see Appendix V (as added pursuant to this amendment) of this Plan for (i) special provisions which apply to any accounts which were transferred to this Plan or established in connection with such transfer or merger and (ii) special provisions which apply to participants who formerly participated in the transferor or nonsurviving plan.

ARTICLE XVI
AMENDMENTS

Microsoft Corporation reserves the right, from time to time, to make any amendment or amendments to this Plan by resolution of its Board of Directors, or by action of any committee, person(s) or job position(s) to whom the Board of Directors has delegated authority to amend the Plan, which amendment or amendments shall not cause any part of the plan funds to be used for, or directed to, any purposes other than the exclusive benefit of participants, former participants or their beneficiaries, nor shall any such amendment reduce the amount of accrued benefit of any participant or beneficiary within the meaning of Code (S) 411(d)(6) except to the extent permitted by Code (S) 411(d)(6) or the Treasury Regulations thereunder.

ARTICLE XVII
RIGHTS RESERVED

The establishment of the Plan as evidenced hereby or as hereafter modified, the creation of any funds or accounts or the payment of any benefit hereunder shall not be construed as giving any participant, or any other person, any legal or equitable right against the employer, the trustee, or the Plan Administrator, unless the same shall be specifically provided for in this document or conferred by affirmative action of the employer in accordance with the terms and provisions of this Plan or as giving any employee or participant the right to be retained in the service of the employer. All employees shall remain subject to discharge by the employer to the same extent as if this Plan had never been executed.

ARTICLE XVIII
TOP-HEAVY PROVISIONS

If the Plan is top-heavy in any plan year, the provisions of Appendix IV, attached hereto and incorporated herein, shall supersede any conflicting provisions in the Plan.

ARTICLE XIX
LOANS

A participant may borrow from his or her account in accordance with a non-discriminatory written loan policy, which is incorporated herein by reference.

ARTICLE XX

ANNUITY DISTRIBUTIONS TO PARTICIPANTS AND BENEFICIARIES

20.1 APPLICABILITY. The provisions of this Article XX shall apply only to

the participants who (1) had accounts transferred to this Plan from a plan which provided the option of receiving distributions in the form of an annuity (as shown in Appendix V), and (2) have chosen to receive their distribution upon death, disability, or termination of employment in the form of a life annuity. This Article XX applies only to those accounts described in Appendix V that were transferred from the prior plan in a plan merger, plan-to-plan asset transfer or other transfer for which the annuity distribution option is required by law to be preserved with respect to the transferred accounts. Thus, for example, this Article XX does not apply to regular rollovers.

20.2 DEFINITIONS.

(a) ANNUITY STARTING DATE means the first day of the first period for

which an amount is paid as an annuity.

(b) ELECTION PERIOD means the period beginning on the first day of the

plan year in which a participant attains 35 and ending on the date of the participant's death. If a participant separates from service before the first day of the plan year in which he reaches age 35, the election period with respect to his or her account balance as of the date of separation shall begin on the date of separation. A participant who will not attain age 35 as of the end of a plan year may make a valid waiver election to waive the qualified preretirement survivor annuity for the period beginning on the date of the election and ending on first day of the plan year in which the participant will attain age 35. Qualified preretirement survivor annuity coverage will be

automatically reinstated as of the first day of the plan year in which a participant attains age 35. Any new waiver on or after that date shall be subject to the full requirements of this Article XX.

(c) QUALIFIED JOINT AND SURVIVOR ANNUITY means an immediate annuity

purchasable with the participant's vested account balance which provides a life annuity for the participant and a survivor annuity payable for the remaining life of the participant's surviving spouse equal to at least 50% and not more than 100% of the amount of the annuity payable during the life of the participant.

(d) PRERETIREMENT SURVIVOR ANNUITY means an annuity which is purchasable

with 100% of the participant's vested account balance (as determined on the date of the participant's death) and which is payable for the life of the participant's surviving spouse.

(e) SPOUSE means the current spouse or surviving spouse of a participant

except that a former spouse will be treated as a spouse or surviving spouse (and a current spouse will not be treated as the spouse or surviving spouse) to the extent provided under a qualified domestic relations order.

20.3 DISTRIBUTION IN THE FORM OF A JOINT AND SURVIVOR ANNUITY.

A participant who is married shall receive his or her vested account balance in the form of a joint and survivor annuity unless the participant completes a valid waiver election within the 90-day period ending on the annuity starting date. The participant's waiver election will not be required to meet the spousal consent requirements if: (1) the participant does not have a spouse; (2) the Plan is unable to locate the participant's spouse; (3) the participant is legally separated or has been abandoned (within the meaning of state law) and the participant has a court order to that effect; or (4) other circumstances exist under which the Secretary of the Treasury will excuse the

consent requirement. If the participant's spouse is legally incompetent to give consent, the spouse's legal guardian (even if the legal guardian is the participant) may give consent.

20.4 DISTRIBUTION IN THE FORM OF A PRERETIREMENT SURVIVOR ANNUITY. If a

married participant dies prior to his or her annuity starting date, the participant's surviving spouse shall receive a portion of the participant's vested account balance in the form of a preretirement survivor annuity, unless the participant had a valid waiver election in effect, or unless the participant and his or her spouse were not married through a one year period ending on the date of the participant's death.

20.5 WAIVER ELECTION - QUALIFIED JOINT AND SURVIVOR ANNUITY.

During the 90-day period prior to the participant's annuity starting date, a participant may waive the requirement to receive his or her benefit under the Plan in the form of a joint and survivor annuity. In order to waive the election, the participant must have received a written explanation of the terms and conditions of the qualified joint and survivor annuity as described in Section 20.7.

A married participant's waiver election shall not be valid unless the participant's spouse: (1) has consented in writing to the election waiver and a notary public or the plan administrator (or his or her representative) witnesses the spouse's consent; (2) the spouse consents to the alternate form of payment designated by the participant or to any change in the designated form of payment; and (3) unless the spouse is the participant's sole beneficiary, the spouse consents to the participant's beneficiary designation or to any change in the participant's beneficiary designation.

20.6 WAIVER ELECTION - PRERETIREMENT SURVIVOR ANNUITY. A participant's

waiver election of the preretirement survivor annuity is not valid unless: (1) the participant makes the waiver election during the election period as defined in this section; and (2) the participant's spouse (to whom the preretirement survivor annuity is payable) satisfies the consent requirements described in Section 20.5, except that the spouse need not consent to the form of benefit payable to the designated beneficiary. The spouse's consent to the waiver of the preretirement survivor annuity is irrevocable, unless the participant revokes the waiver election. A waiver election described in this paragraph is not valid unless made after the participant has received the written explanation described in Section 20.7.

20.7 NOTICE REQUIREMENTS. In the case of a qualified joint and survivor

annuity, no less than 30 days and no more than 90 days before a participant's annuity starting date the plan administrator shall provide to the participant a written explanation of: (1) the terms and conditions of a qualified joint and survivor annuity; (2) the participant's right to make, and the effect of, an election to waive the qualified joint and survivor annuity form of benefit; (3) the rights of the participant's spouse; and (4) the right to make, and the effect of, a revocation of a previous election to waive the qualified joint and survivor annuity. The Plan may provide the written explanation described above after the annuity starting date, provided that the distribution begins at least 30 days after the date on which such explanation is provided. Notwithstanding the foregoing, the Plan may permit a participant to elect to waive the requirement that the written explanation be provided at least 30 days before the annuity starting date. Such a waiver is allowed only if the distribution commences more than 7 days after the written explanation is provided.

In the case of a qualified preretirement annuity, the plan administrator shall provide to the participant a written explanation of the qualified preretirement survivor annuity, in terms and manner comparable to the requirements applicable to the explanation of a qualified joint and survivor annuity as described in the preceding paragraph. The explanation shall be provided by the latest of the following periods: (1) the period beginning with the first day of the plan year in which the participant attains age 32 and ending with the close of the plan year preceding the plan year in which the participant attains age 35; (2) a reasonable period ending after an individual becomes a participant; or (3) a reasonable period ending after this Article XX first applies to the participant. Notwithstanding the foregoing, in the case of a participant who separates from service before attaining age 35, notice must be provided within a reasonable time ending after his separation from service.

A reasonable period of time shall be the end of a two-year period beginning one year before the date the applicable event occurs, and ending one year after that date. In the case of a participant who separates from service before the plan year in which he reaches age 35, notice shall be provided within the two-year period beginning one year before the separation and ending one year after the separation. If such a participant thereafter returns to employment with the employer, the applicable period for the participant shall be redetermined.

20.8 DISTRIBUTION OF ACCOUNTS OF LESS THAN \$5,000. Notwithstanding any -----
provision of this Article XX to the contrary, if a participant's vested account balance does not exceed \$5,000 on the date of distribution (and has never exceeded \$5,000 at the time of a prior distribution), the participant's benefit shall be distributed in the form of a lump sum.

20.9 PROVISION OF ANNUITIES. All annuities provided under this Plan -----
shall be purchased from an insurance company selected by Microsoft Corporation.

ARTICLE XXI
VOLUNTARY AFTER-TAX CONTRIBUTIONS

21.1 ELECTION TO MAKE VOLUNTARY AFTER-TAX CONTRIBUTIONS. In the same

manner as described in Article III for employee salary deferrals, a participant may elect to contribute on an after-tax basis from 1% to 7% of each of his or her compensation payments to an employee after-tax contribution account under the Plan, provided, however, that the contributions shall be subject to the limitations of Code (S)415 (as described in Section 9.1 of the Plan) and Code (S)401(m) (as described in Section 9.7 and Appendix III.9.5.C. of the Plan).

21.2 VESTING OF VOLUNTARY AFTER-TAX CONTRIBUTIONS. A participant's

voluntary after-tax contributions made to the Plan in accordance with Section 21.1 shall be fully vested at all times.

21.3 ESTABLISHMENT OF VOLUNTARY AFTER-TAX CONTRIBUTIONS ACCOUNTS. For

participants who elect to make a contribution under this Article XXI, the employer shall establish a separate account for the participant. These accounts shall be labeled employee after-tax contribution accounts.

21.4 LIMITATIONS ON VOLUNTARY AFTER-TAX CONTRIBUTIONS. A participant's

voluntary after-tax contributions shall be subject to the limitations on total account contributions under Section 9.1 of the Plan. If a participant who has made voluntary after-tax contributions during the plan year exceeds the limitation under Section 9.1, the after-tax contributions shall be distributed to the participant before any distribution from the participant's salary deferral account is made.

A participant's voluntary after-tax contributions shall also be subject to the average contributions percentage test as described in Section 9.7 and Appendix III.9.5.C. of the Plan. For

purposes of such test and calculating a participant's contribution percentage, an employee's voluntary after-tax contributions shall be added to the employer matching contributions, the sum of which shall then be divided by the participant's compensation. If a participant who has made voluntary after-tax contributions during the plan year exceeds the limitations under Section 9.7 and Appendix III.9.5.C. of the Plan, the after-tax contributions shall be distributed to the participant before any distribution from the participant's employer contribution account is made.

21.5 DEFINITION OF COMPENSATION. Any employee voluntary after-tax

contributions made by a participant during the plan year shall be included in the definition of compensation in Appendix I of the Plan.

21.6 PLAN TERMS APPLICABLE TO VOLUNTARY AFTER-TAX CONTRIBUTIONS. The

provisions of Article III applicable to the method of making an election to contribute a portion of compensation, the provisions of Article VI regarding participant's accounts and investments, the provisions of Article VII regarding the payment of account balances upon termination, age 59 1/2 , death, disability, qualified domestic relations orders, or the sale of the trade or business, the provisions of Article VIII regarding hardship distributions, and the provisions of Article XIX (which incorporates by reference the loan policy of the Plan) and the loan policy shall all apply to participant voluntary after-tax contributions. For purposes of these sections, except to the extent provided otherwise under this Article, voluntary after-tax contributions shall be treated in the same manner as participant salary deferral contributions. In addition, the general provisions of the Plan found in Article XI Administration, Article XII Claims Procedure, Article XIII Nonalienation Provision, Article XIV Termination, Article XV Merger or Consolidation, Article XVI Amendments, Article XVII Rights Reserved,

Article XVIII Top-Heavy Provisions and similar articles or appendices shall apply to the voluntary after-tax contributions to the Plan.

APPENDIX I

DEFINITION OF COMPENSATION

Section 1.3

I.1.3.A. Compensation:

Compensation means an employee's wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the employer maintaining the plan to the extent that the amounts are includible in gross income (including, but not limited to, bonuses, commissions, and overtime pay). Compensation includes the employee's elective salary reduction contributions not includible in gross income under Code (S) 125 (cafeteria plans) or (S) 402(e)(3) (401(k) plans); and compensation includes foreign earned income (as defined in Code (S) 911(b)), whether or not excludable from gross income under Code (S) 911. Compensation shall not include:

(a) (even if includible in gross income) reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, welfare benefits, and bonuses and expense allowances which are not based upon the participant's performance as an employee (examples of non-performance based compensation include signing, relocation, press, and patent bonuses, tax and foreign currency equalization payments, and anniversary stock awards);

(b) employer contributions to a simplified employee pension described in Code (S) 408(k), distributions from a plan of deferred compensation (regardless of whether such amounts are includible in the gross income of the employee when distributed);

(c) amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by an employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(d) amounts realized by the employee from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(e) other amounts which receive special tax benefits, such as premiums for group-term life insurance.

I.1.3.B. Compensation for Employees of Controlled Group

In the case of an employee of an employer which is a member of a controlled group of corporations (as defined in Code (S) 414(b) as modified by Code (S) 415(h)), the term "compensation" for such employee includes compensation from all employers that are members of the group, regardless of whether the employee's particular employer has a qualified plan. This rule is also applicable to an employee of two or more trades or businesses (whether or not incorporated) that are under common control (as defined in Code (S) 414(c) as modified by Code (S) 415(h)), to an employee of two or more members of an affiliated service group as defined in Code (S) 414(m), and to an employee of two or more members of any group of employers who must be aggregated and treated as one employer pursuant to Code (S) 414(o).

I.1.3.C. Limitations on Compensation

(a) In addition to the applicable limitations set forth in the Plan, and notwithstanding any other provisions of the Plan to the contrary the annual compensation of each employee taken into account under the Plan shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is \$150,000, as adjusted by the Commissioner for increases in the cost of living in accordance with Code (S) 401(a)(17)(B) (e.g., \$160,000 in

1997). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (the "determination period") beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

Any reference in this Plan to the limitation under Code (S) 401(a)(17) shall mean the OBRA '93 annual compensation limit set forth in this provision.

For purposes of determining the maximum dollar amount referred to in this provision, the compensation of any participant who is either a 5% owner (as defined in Code (S) 416(i)) or one of the ten most highly paid highly compensated employees during the Plan year shall be aggregated with: (i) the compensation of any lineal descendant who has not attained the age of 19, and (ii) the compensation of a participant who is his or her spouse.

APPENDIX II
Sections 1.6, 2.1 and 5.2

EMPLOYERS MAINTAINING THE PLAN

Employer	Effective Date
Microsoft Corporation	January 1, 1987
Technology Resources Management Corporation	November 23, 1992
Vermeer Technologies, Inc.	April 1, 1996 - March 13, 1998
Microsoft Licensing, Inc.	August 1, 1997
WebTV Networks, Inc.	January 1, 1998
Hotmail Corporation	April 1, 1998
Microsoft - Health, LLC	September 21, 1998
MSNBC Interactive News L.L.C.	January 1, 1999
Expedia, Inc.	November 1 - December 31, 1999
Visio Corporation	March 1, 2000

EMPLOYEES' PREPARTICIPATION SERVICE WITH THESE COMPANIES
IS COUNTED FOR ELIGIBILITY AND VESTING

Company	Effective Date Credit is Granted
Microsoft Corporation	January 1, 1987
Technology Resources Management Corporation	November 23, 1992
Fox Software, Inc.	July 1, 1992
SOFTIMAGE, Inc.	June 27, 1994
Bauer Group, Inc.	July 1, 1989
Forethought, Inc.	August 1, 1987
Altamira Software Corporation	September 16, 1994
NextBase, Ltd.	October 31, 1994
Automap, Inc.	October 31, 1994
One Tree Software, Inc.	November 10, 1994
Natural Language Inc.	February 22, 1995
Network Managers Ltd.	August 28, 1995

Company	Effective Date Credit is Granted
Blue Ribbon SoundWorks	October 13, 1995
Netwise	October 28, 1995
Bruce Artwick Organization	December 1, 1995
Vermeer Technologies, Inc. (Note: service credit is as described in Appendix V)	January 12, 1996
Colusa Software, Inc.	February 9, 1996
Aspect Software Engineering, Inc.	March 22, 1996
Aha! software corp.	March 27, 1996
EXOS, Inc.	April 12, 1996
EShop Inc. (Note: service credit is as described in Appendix V)	June 20, 1996
ResNova Software, Inc.	November 14, 1996
Panorama Software Systems Ltd.	January 2, 1997

EMPLOYEES' PREPARTICIPATION SERVICE WITH THESE COMPANIES
IS COUNTED FOR VESTING

Company	Effective Date Credit is Granted
NetCarta Corporation	January 31, 1997
Interse` Corporation	February 25, 1997
Dimension X	May 13, 1997
Cooper & Peters, Inc.	June 11, 1997
LinkAge Software (1997) Inc. (and its predecessor, LinkAge Software Inc.)	June 27, 1997
VXtreme, Inc.	July 31, 1997
WebTV Networks, Inc. (Note: service credit is as described in Appendix V)	August 1, 1997
Hotmail Corporation	December 30, 1997
Firefly Network, Inc.	April 15, 1998
The Mesa Group, Inc.	April 24, 1998
Valence Research	August 7, 1998

Company	Effective Date Credit is Granted
LinkExchange Inc.	November 4, 1998
Virtual World Entertainment Group, Inc.	January 11, 1999
FASA Interactive Technology, Inc.	January 11, 1999
Compare Net, Inc.	March 4, 1999
Access Software Incorporated	April 29, 1999
Jump Networks, Inc.	April 30, 1999
Intrinsa Corporation	June 29, 1999
Entropic Research Laboratory, Inc.	November 4, 1999
Visio Corporation	January 7, 2000

In order to receive preparticipation service credit for service with any of the foregoing companies except Microsoft Corporation ("Microsoft"), Technology Resources Management Corporation ("TRMC"), Vermeer Technologies, Inc. ("VTI") and eShop Inc. (each of the foregoing is hereinafter referred to as a "Former Employer"), the employee must be employed by Microsoft, TRMC, VTI or a company which is affiliated (within the meaning of Code Sections 414(b), (c), (m) or (o)) with Microsoft, TRMC or VTI, in connection with Microsoft's (or its affiliate's) acquisition of or merger with such Former Employer (or a trade or business thereof). Any employee who has previously worked for one of the Former Employers and whose employment with Microsoft, TRMC, VTI or one of its affiliates is not connected with Microsoft's (or its affiliate's) acquisition of or merger with such Former Employer (or a trade or business thereof) will not receive credit for his or her prior service with the Former Employer.

Preparticipation service credit is counted for eligibility and vesting purposes for an employee's service with the following companies despite the fact that neither Microsoft nor an affiliate of Microsoft acquired or merged with such company (or a trade or business thereof). Notwithstanding the foregoing, service with the following companies will only be counted for

those employees who are employed with Microsoft (or an affiliate of Microsoft) on the effective date set forth below on which service credit is granted for service with such company.

EMPLOYEES' PREPARTICIPATION SERVICE WITH THESE COMPANIES
IS COUNTED FOR ELIGIBILITY AND VESTING
(NOTE: These Companies were not Acquired)

Company	Effective Date Credit is Granted
----- Charles View Software, Inc.	----- June 1, 1996

Prior service with MSNBC Interactive News L.L.C. and, for employees of MSNBC Interactive News L.L.C., service with National Broadcast Company, shall also be counted towards vesting. See Appendix V.G. regarding calculation of such vesting service credit.

APPENDIX III

CODE (S) 401(k) LIMITATIONS OF COMPENSATION DEFERRALS AND CODE (S) 401(m)

LIMITATIONS ON COMPENSATION DEFERRALS

III.9.5.A. Definition of Highly Compensated Employee.

"Highly compensated employee" shall mean:

(a) Any employee who performs services for the employer during the "determination year" and who, during the "determination year" (1) was a 5% owner of the employer; (2) received compensation from the employer in excess of \$75,000 (as adjusted for increases in cost of living as reported in IRS publications); (3) received compensation from the employer in excess of \$50,000 (as adjusted for increases in cost of living as reported in IRS publications) and was a member of the "top-paid group" for such year; or (4) was an officer of the employer and received compensation during such year that is greater than 50% of the dollar limitation in effect under Code (S) 415(c)(1)(A);

(b) Any employee who separated from service (or was deemed to have separated) prior to the determination year, and met the description in (a) above for either the separation year or any determination year ending on or after the employee's 55th birthday.

(c) If no officer of the employer has compensation in excess of 50% of the dollar limitation in effect under Code (S) 415(b)(1)(A) during a determination year, the highest paid officer for such year shall be treated as a highly compensated employee.

(d) If an employee is, during a determination year, a "family member" of either a 5% owner who is an employee or of a highly compensated employee in the group consisting of the 10 most highly compensated employees ranked on the basis of compensation paid by the employer during such year, then the family member and 5% owner or top-ten highly

compensated employee shall be treated as a single employee, and their compensation and contributions or benefits under this Plan shall be aggregated. Except as otherwise provided under Code (S) 401(a)(17), "family member" includes the spouse, lineal ascendants and descendants of the employee or former employee, and the spouses of such lineal ascendants and descendants.

(e) The "determination year" shall be the plan year for which compliance is being tested, and the "look-back year" shall be the calendar year ending at the end of the determination year (see the calendar year calculation election pursuant to Temporary Treasury Regulation 1.414(q)-IT, Q&A-14(b)). Because the look-back year is the same as the determination year, the look-back year shall be referred to herein as the determination year.

(f) The "top-paid group" for a determination year shall consist of the top 20% of employees ranked on the basis of compensation received during the year excluding employees described in Code (S) 414(q)(8) and Treasury regulations thereunder. The number of employees treated as officers shall be limited to 50 (or, if less, the greater of 3 employees or 10% of the employees). For purposes of this definition of "highly compensated employee", "compensation" means compensation within the meaning of Code (S) 415(c)(3), but including elective or salary reduction contributions to a cafeteria plan, cash or deferred arrangement, or tax-sheltered annuity.

(g) Notwithstanding the foregoing, for any year that the requirements set forth in Code Section 414(q)(12) and any regulations thereunder are satisfied, (a)(2) above shall be applied by substituting "\$50,000" for "\$75,000", and (a)(3) above shall not apply.

III.9.5.B. Code (S) 401(k) Limitations on Compensation Deferrals.

(a) The Plan Administrator will estimate as soon as practicable before the close of the plan year and at such other times as the Plan Administrator in its discretion determines, the extent, if any, to which any participant or class of participants will have to reduce contributions under this Plan.

(b) For each plan year, an actual deferral percentage will be determined for each participant equal to the ratio of the total amount of the participant's salary deferrals under section 3.1 for the plan year divided by the participant's compensation in the plan year. In the case of family members treated as a single highly compensated employee under the definition of "highly compensated employee", in accordance with the family aggregation rules of Code (S) 414(q)(6), the actual deferral percentage shall be the greater of the (1) the actual deferral percentage determined by combining the compensation deferrals and compensation of all eligible family members who are highly compensated employees without regard to family aggregation, and (2) the actual deferral percentage determined by combining the salary deferrals and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the deferrals and compensation of such family members shall be disregarded for purposes of this section. Except as otherwise provided in this paragraph (b), with respect to participants who have made no salary deferrals under this plan, such actual deferral percentage will be zero.

(c) The average of the actual deferral percentages for highly compensated employees ("high average") when compared with the average of the actual deferral percentages for non-highly compensated employees ("low average") must meet one of the following requirements:

(1) The high average is no greater than 1.25 times the low average; or

(2) The high average is no greater than two times the low average and the high average is no greater than the low average plus two percentage points.

(d) If, pursuant to the estimates by the Plan Administrator under (a) and (b) above, a participant or class of participants is not eligible for salary deferral treatment for any or all of the amounts deferred, then the Plan Administrator may elect, at its discretion, to pursue any of the following courses of action or any combination thereof:

(1) Excess salary deferrals, and any earnings attributable thereto through the date of distribution, may be returned to the employer employing the participant, solely for the purpose of enabling the employer to withhold any federal, state, or local taxes due on such amounts. The employer will pay all remaining amounts to the participant within the 2-1/2 month period following the close of the plan year to which the excess salary deferrals relate to the extent feasible. but in all events no later than 12 months after the close of such plan year.

(2) The Plan Administrator may authorize a suspension or reduction of salary deferrals.

(3) The company, in its discretion, may make a contribution to the Plan, which will be allocated as a fixed dollar amount among the accounts of non-highly compensated employees who have met the requirements of section 2.1

(e) The amount of the excess salary deferrals will be determined by the Plan Administrator by reducing the actual deferral percentage of the highly compensated employee(s) with the highest actual deferral percentage to the extent required to enable the plan to meet the limits in (c) above or to cause the actual deferral percentage of such employee(s) to equal the actual deferral percentage of the highly compensated employee(s) with the next-highest actual

deferral percentage. The process in the preceding sentence shall be repeated until the Plan satisfies the limits in (c) above. In the case of family members subject to the family aggregation rules of Code (S) 414(q)(6), excess salary deferrals will be allocated among family members in proportion to the salary deferrals of each family member that have been combined under section III.9.5.B.(b) above. Where the actual deferral percentage is determined under section III.9.5.B.(b)(1) above, however, excess salary deferrals will be allocated first among the eligible highly compensated employee family members in proportion to the salary deferrals of each such highly compensated employee family member until the actual deferral percentage of the eligible highly compensated employee family members has been reduced to the actual deferral percentage of the eligible non-highly compensated employee family members. If reduction of the actual deferral percentage below that of the eligible non-highly compensated employee family members is required under section III.9.5.B.(b)(1) to enable the plan to meet the limits in section III.9.5.B.(c) above, such further reduction shall take into account the salary deferrals of all eligible family members and shall be allocated among all such family members in proportion to their salary deferrals. The earnings attributable to excess salary deferrals will be determined in accordance with Treasury Regulations.

(f) In the discretion of the Plan Administrator, the tests described in this section may be applied by aggregating the Plan with any other defined contribution plans permitted under the Code.

III.9.5.C. Code (S) 401(m) Limitations on Employer Matching Contributions.

(a) For each plan year, a contribution percentage will be determined for each participant equal to the ratio of the total amount of the participant's employer matching contributions under section 4.1 for the plan year divided by the participant's compensation for the

plan year. Any employer matching contributions or employer contributions treated as salary deferrals under section III.9.5.B.(b) shall not be used to satisfy the requirements of this Section III.9.5.B.(a), except as otherwise permitted by the Code or Treasury Regulations. In the case of family members treated as a single highly compensated employee under the definition of "highly compensated employee" in accordance with the family aggregation rules of Code (S) 414(q)(6), the contribution percentage shall be the greater of (1) the contribution percentage determined by combining the employer matching contributions and compensation of all eligible family members who are highly compensated employees without regard to family aggregation, and (2) the actual contribution percentage determined by combining the employer matching contributions and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the employer matching contributions, compensation and all amounts treated as employer matching contributions of such family members shall be disregarded for purposes of this section III.9.5.C. Except as otherwise provided in this Section III.9.5.C.(b), with respect to participants and for whom there were no employer matching contributions under this plan, such contribution percentage will be zero.

(b) The average of the contribution percentages for highly compensated employees ("high average") when compared with the average of the contribution percentages for non-highly compensated employees ("low average") does not exceed the greater of:

(1) 1.25 times the low average; or

(2) The lesser of two times the low average, or the low average plus two percentage points.

(c) If the contribution percentage for any plan year for highly compensated employees exceeds the limits established in (b), the excess contributions for such plan year (and

the earnings attributable to such excess contributions through the date of distribution) shall be distributed to the highly compensated employees so that the contribution percentage of the highly compensated employee(s) with the highest contribution percentage is reduced to the extent required to enable the plan to meet the limits in (b) above or to cause the contribution percentage of such employee(s) to equal the contribution percentage of the highly compensated employee(s) with the next-highest contribution percentage. The process in the preceding sentence shall be repeated until the plan satisfies the limits in (b) above. In the case of family members subject to the family aggregation rules of Code (S) 414(q)(6), excess contributions will be allocated among family members in proportion to the employer matching contributions of each family member that have been combined under section III.9.5.C.(a) above. Where the contribution percentage is determined under section III.9.5.C.(a)(1) above, however, excess employer matching contributions will be allocated first among the eligible highly compensated employee family members in proportion to the employer matching contributions of each such highly compensated employee family member until the contribution percentage of the eligible highly compensated employee family members has been reduced to the contribution percentage of the eligible non-highly compensated employee family members. If reduction of the contribution percentage below that of the eligible non-highly compensated employee family members is required under section III.9.5.C.(a)(1) to enable the plan to meet the limits in section A.3(b) above, such further reduction shall take into account the employer matching contributions of all eligible family members in proportion to their employer matching contributions. The earnings attributable to excess contributions will be determined in accordance with Treasury Regulations.

(d) The tests of sections III.9.5.B.(c) and III.9.5.C.(b) shall be met in accordance with the prohibition against the multiple use of the alternative limitation under Code (S) 401(m)(9).

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APPENDIX IV

IV.18.A. TOP-HEAVY DEFINITIONS. The definitions relating to top-heavy plan provisions are as follows:

(a) Key Employee shall mean any employee or former employee (and the beneficiaries of such employee) who, in the plan year containing the determination date, or any of the four preceding plan years is:

(i) An officer of the employer having an annual compensation from the employer greater than 50 percent of the amount in effect under Code (S) 415(b)(1)(A) for any such plan year. Not more than fifty employees (or, if fewer, the greater of three employees or ten percent of the employees), including those employees included under subparagraph (ii), (iii) and (iv) below, shall be considered as officers for purposes of this subparagraph.

(ii) One of the ten employees having an annual compensation from the employer of more than the amount in effect under Code (S) 415(c)(1)(A) in the plan year and owning (or considered as owning within the meaning of Code (S) 318) the largest interests in the employer.

(iii) A five-percent owner of the employer.

(iv) A one-percent owner of the employer having an annual compensation (within the meaning of Code (S) 414(q)(7)) from the employer of more than \$150,000 for a plan year.

Whether an employee is a five-percent owner or a one-percent owner shall be determined in accordance with Code (S) 416(i). If any individual has not performed services for the employer at any time during the five-year period ending on the determination date, any accrued benefit for such individual shall not be taken into account.

(b) Top-Heavy Plan shall mean that this Plan is considered top-heavy

for any plan year if any of the following conditions exists:

(i) If the top-heavy ratio for this Plan exceeds 60% and this Plan is not part of any required aggregation group or permissive aggregation group of plans.

(ii) If this Plan is a part of a required aggregation group of plans but not part of a permissive aggregation group and the top-heavy ratio for the group of plans exceeds 60%.

(iii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top-heavy ratio for the permissive aggregation group exceeds 60%.

(c) Top-Heavy Ratios shall mean the ratios calculated as follows:

(i) If the employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the employer has not maintained any defined benefit plan which during the 5-year period ending on the determination date(s) has or has had accrued benefits, the top-heavy ratio for this Plan alone or for the required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of the account balances of all key employees as of the determination date(s) (including any part of any account balance distributed in the 5-year period ending on the determination date(s)), and the denominator of which is the sum of all account balances (including any part of any account balance distributed in the 5-year period ending on the determination date(s)), both computed in accordance with Code (S) 416 and the regulations thereunder. Both the numerator and denominator of the top-heavy ratio are adjusted to reflect any contribution not actually made as

of the determination date, but which is required to be taken into account on that date under Code (S) 416 and the regulations thereunder.

(ii) If the employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the employer maintains or has maintained one or more defined benefit plans which during the 5-year period ending on the determination date(s) has or has had any accrued benefits, the top-heavy ratio for any required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of account balances under the aggregated defined contribution plan or plans for all key employees, determined in accordance with (i) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all key employees as of the determination date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all participants, determined in accordance with (i) above, and the present value of accrued benefits under the defined benefit plan or plans for all participants as of the determination date(s), all determined in accordance with Code (S) 416 and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the top-heavy ratio are adjusted for any distribution of an accrued benefit made in the five-year period ending on the determination date.

(iii) For purposes of (i) and (ii) above the value of account balances and the present value of accrued benefits will be determined as of the most recent valuation date that falls within or ends with the 12-month period ending on the determination date, except as provided in Code (S) 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a participant (1) who is not a key employee but who was a key employee in a prior year, or (2) who has not been credited with

at least one hour of service with any employer maintaining the Plan at any time during the 5-year period ending on the determination date will be disregarded. The calculation of the top-heavy ratio, and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code (S) 416 and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the top-heavy ratio. When aggregating plans the value of account balances and accrued benefits will be calculated with reference to the determination dates that fall within the same calendar year.

(d) Permissive Aggregation Group shall mean the required aggregation

group of plans plus any other plan or plans of the employer which, when considered as a group with the required aggregation group, would continue to satisfy the requirements of Code (S)(S) 401(a) (4) and 410.

(e) Required Aggregation Group shall mean each qualified plan of the

employer in which at least one key employee participates or participated at any time during the determination period (regardless of whether the plan has terminated), and any other qualified plan of the employer which enables such a plan to meet the requirements of Code (S) 401(a)(4) or (S) 410.

(f) Determination Date shall mean for any plan year subsequent to the

first plan year, the last day of the preceding plan year; for the first plan year of the Plan, the last day of that year.

(g) Valuation Date shall mean the date as of which account balances

or accrued benefits are valued for purposes of calculating the top-heavy ratio.

(h) Present value shall be based only on the interest and mortality

rates specified in the adoption agreement.

IV.18.B. MINIMUM ALLOCATION.

The employer contributions and forfeitures allocated on behalf of any participant employed on the last day of the plan year, who is not a key employee, shall not be less than the lesser of three percent of such participant's compensation or in the case where the employer has no defined benefit plan which designates this plan to satisfy Code (S) 401, the largest percentage of employer contributions and forfeitures, as a percentage of the first \$160,000 (or the adjusted limitation under Code (S) 401(a)(17)) of the key employee's compensation, allocated on behalf of any key employee for that year. If the highest rate allocated to a key employee for a year in which the Plan is top heavy is less than 3%, amounts contributed as a result of a salary deferral agreement shall be included in determining contributions made on behalf of key employees. The minimum allocation is determined without regard to any Social Security contribution. This minimum allocation shall be made even though, under other plan provisions, the participant would not otherwise be entitled to receive an allocation, or would have received a lesser allocation for the year because of (1) the participant's failure to complete 1,000 hours of service (or any equivalent provided in the Plan), or (2) the participant's failure to make mandatory employee contributions to the Plan, or (3) compensation less than a stated amount. An allocation under this section shall not be made if the participant is covered under any other plan or plans of the employer and the minimum allocation or benefit requirement applicable to top-heavy plans will be met in the other plan or plans. The definition of compensation in section 1.3 of the Plan shall be the definition for determining minimum allocations under this section. This definition shall be used for all top-heavy purposes, including determining whether an employee is a key employee.

APPENDIX V

SPECIAL PROVISIONS FOR ACCOUNTS OR PARTICIPANTS TRANSFERRED

FROM OTHER PLANS IN CONNECTION WITH PLAN

MERGERS OR TRUST-TO-TRUST TRANSFERS

A. Former Accounts and Participants of the Vermeer Technologies 401(k) Plan

1. History of Corporate Merger. On January 12, 1996, Vermeer

Technologies, Inc. merged with a wholly-owned subsidiary of Microsoft Corporation, and the merged entity remained a wholly-owned subsidiary of Microsoft. On February 21, 1996 the name of the subsidiary (i.e., the merged entity) was changed from Vermeer Technologies, Inc. to Microsoft Web Authoring Product Unit, Inc. ("MWAPUI"). On March 26, 1996 the name of the subsidiary was changed back to Vermeer Technologies, Inc. ("VTI"). At the time of the merger, VTI was the plan sponsor of the Vermeer Technologies 401(k) Plan ("V-Plan"). After the merger, VTI employees continued to actively participate in the V-Plan.

2. Plan Merger. Effective April 1, 1996, the V-Plan is merged into the

Microsoft Corporation Savings Plus 401(k) Plan ("Plan"), and this plan document for the plan, as amended previously and by this Amendment, is the surviving plan document.

Only employee 401(k) salary deferrals and rollovers have been contributed to the V-Plan; no employer matching or discretionary profit sharing contributions have ever been made to the V-Plan. The only accounts which participants have in the V-Plan are 401(k) salary deferral and rollover accounts ("V-Accounts"), both of which are and always have been nonforfeitable. The V-Accounts are transferred to the Plan without alteration and shall be kept separate from other accounts held in the Plan by former V-Plan participants. The V-Accounts shall only contain amounts transferred from the V-Plan, and shall always be kept separate from the salary deferral,

matching and rollover accounts that former V-Plan participants have after April 1, 1996. However, each former V-Plan participant's V-Plan salary deferral and rollover account (if any) may be consolidated into one V-Account at the Plan Administrator's discretion if the accounts have identical rights, features, conditions, and limits.

3. Eligibility. The age 18 minimum age requirement set forth in Plan

Section 2.1 shall not apply to any person who was ever employed by MWAPUI or VTI on or before April 1, 1996. Every employee of VTI who on April 1, 1996 is an eligible employee (as defined in Section 1.5 of the Plan) shall immediately begin active participation in the Plan without having to satisfy the age 18 minimum age requirement set forth in Plan Section 2.1. Any participant in the V-Plan on April 1, 1996 who is not an eligible employee as defined in Plan Section 1.5 shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee. Any person who is employed by VTI on April 1, 1996 but is neither a participant in the V-Plan nor an eligible employee as defined in Plan Section 1.5 shall become a participant in the Plan if and when they become an eligible employee. Any person employed by VTI after April 1, 1996 who was not employed by VTI or MWAPUI at any time on or before April 1, 1996 shall be required to satisfy all of the eligibility conditions of Plan Sections 1.5 and 2.1, including the age 18 minimum age requirement.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their V-Accounts which are transferred to the Plan effective April 1, 1996. For purposes of determining their vested percentage in their employer matching contribution account in this Plan, participants shall be credited with the whole years of vesting service credited to them under the V-Plan as of December 31, 1995. Beginning with the 1996 plan year (commencing January 1, 1996), the participant shall begin to earn vesting service credit under the elapsed time method as

set forth in Article V of the Plan. In addition, if a participant worked at least 1,000 hours between January 1, 1996 and March 31, 1996, the participant shall be credited with one year of service for 1996 even if they do not work every day in 1996. Notwithstanding anything in this Subsection 4 to the contrary, a participant who is described in the previous sentence shall not begin to earn credit under the elapsed time method of Article V until the 1997 plan year (commencing January 1, 1997).

5. Special Provisions Applicable to the V-Accounts. The following special

provisions apply only to the V-Accounts. With respect to the V-Accounts, the following special provisions shall supersede any other provisions of this Plan which are inconsistent with the following provisions.

6. Form of Benefit Payments. The participant may elect to have his or her

V-Accounts distributed in a single lump sum payment or in installments, and in cash or in kind. If the participant elects an in-kind distribution, the participant's interest in the investments of his or her V-Accounts shall be distributed in-kind. For example, if a participant's V-Account were invested 50% in the Microsoft Stock Fund and 50% in the Magellan Fund and the participant requested an in-kind distribution, the participant would receive half of her account in the form of Microsoft stock and the other half of her account in units of interest in the Magellan mutual fund (less any applicable tax withholding). Participants may elect to have their V-Accounts distributed in installments over a period not to exceed the participant's life expectancy or the joint life expectancies of the participant and the participant's designated beneficiary. The participant may elect to have the installments paid monthly, quarterly, semi-annually or annually. If at the time of distribution to a participant or beneficiary the participant's total vested account balance in the Plan (including V-Accounts and other accounts) does not exceed \$5,000 (and never exceeded

\$5,000 at the time of a prior distribution), then the V-Account balance will be distributed in an immediate lump sum and installment payments will not be a payment option.

7. Timing of Benefit Payments. Upon a participant's termination of

employment for reasons other than death, the participant's V-Account shall be distributed as soon as possible after the account is valued. The distribution shall be in cash or in kind, as elected by the participant. If a participant's total vested account balance in the Plan (including V-Accounts and other accounts) exceeds \$5,000 at the time of distribution (or ever exceeded \$5,000 at the time of a prior distribution), then the participant may elect to delay receipt or commencement of his or her V-Account until any date on or before the date the participant reaches age 70 1/2. Any delayed distribution must comply with the requirements of Code Section 401(a)(9) and the regulations thereunder (including without limitation the incidental death benefit requirements). If the participant with total vested plan account balance in excess of \$5,000 does not select a distribution date, the participant's V-Account shall be distributed as soon as practicable after the participant reaches age 65 or terminates employment, whichever occurs last.

The timing of the distribution of the V-Account upon a participant's death shall depend upon whether the participant died before or after the commencement of his or her benefit payments, and whether the participant was survived by a beneficiary who was designated by the participant. If a participant dies prior to the commencement of the distribution of his or her V-Account and is survived by a designated beneficiary who is not his or her spouse, the distribution must be made by December 31 of the calendar year in which the fifth anniversary of the participant's death occurs unless the beneficiary elects to have installment payments commence by the end of the first calendar year after the participant's death. If the designated beneficiary is the participant's spouse, then the same distribution rules described in the previous sentence apply,

except that the spouse may elect to delay distribution or commencement of installment payments until the end of the calendar year in which the participant would have attained age 70 1/2. Notwithstanding the foregoing, if the participant dies before benefit payments from the Plan have commenced to the participant and his or her vested account balance in the Plan does not exceed \$5,000 (and have never exceeded \$5,000 at the time of a prior distribution), distribution to the beneficiary shall be made in an immediate lump sum payment in cash or in kind, as elected by the beneficiary. If the participant dies before benefit payments have commenced, the participant's total vested account balance in the Plan (including V-Accounts and other accounts) exceeds \$5,000 (or exceeded \$5,000 at the time of a prior distribution), and the death beneficiary is not a designated beneficiary, distribution of the participant's V-Account balance will be made in a lump sum or installment payments (e.g., installment payments over four years) as elected by the beneficiary provided, however, that the total V-Account balance must be distributed no later than December 31 of the calendar year in which the fifth anniversary of the participant's death occurs.

If the participant died while he was receiving installment payments of his V-Account, the remaining portion of the V-Account shall be distributed at least as rapidly as under the length and frequency of installment payments which the participant had selected.

Distributions to beneficiaries may be made in cash or in kind, at the election of the beneficiary.

Notwithstanding the foregoing, upon the death or termination of employment of a participant with a vested total account balance in the Plan in excess of \$5,000, neither the participant nor his or her surviving spouse death beneficiary may delay distribution beyond the date the participant attains (or would have attained) age 65. Any references to age 70 1/2 in this

Subsection 7 shall be replaced with a reference to age 65. This paragraph shall not be effective unless and until the Plan receives a favorable determination letter from the Internal Revenue Service stating that this Amendment will not adversely affect the tax-qualified status of the Plan.

8. Plan Loans. Any loans to a participant which are outstanding on April

1, 1996 shall be transferred in kind along with the rest of the participant's V-Accounts. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her V-Plan loan documents.

B. Former Accounts and Participants of the eShop Inc. 401(k) Savings Plan

1. History of Corporate Merger. On June 20, 1996, eShop Inc. was merged

into Microsoft Corporation, with Microsoft Corporation being the surviving corporation. After the corporate merger, certain former employees of eShop Inc. became employees of Microsoft Corporation. As a result of the corporate merger, Microsoft Corporation became the plan sponsor and administrator of the eShop Inc. 401(k) Savings Plan ("E-Plan"), a tax-qualified profit sharing plan which has a 401(k) feature. Although the E-Plan provides for discretionary employer contributions (e.g., profit sharing and matching contributions), only employee salary deferral contributions and rollover contributions have been made to the E-Plan. The E-Plan was frozen as of June 20, 1996, and former eShop Inc. employees stopped making salary deferral contributions to the E-Plan effective June 20, 1996. The former eShop Inc. employees will begin making salary deferral contributions to the Microsoft Corporation Savings Plus Plan ("Plan") effective August 1, 1996.

2. Plan Merger. Effective November 1, 1996, the E-Plan is merged into the

Plan, and this plan document for the Plan, as amended previously and by this Amendment, is the surviving plan document. Although the E-Plan provides for discretionary employer

contributions (e.g., profit sharing and matching contributions), only employee salary deferral contributions and rollover contributions have been made to the E-Plan; no employer matching or discretionary profit sharing contributions have ever been made to the E-Plan. The only accounts ("E-Accounts") which participants have in the E-Plan are a 401(k) salary deferral account ("Deferral E-Account") and a rollover contribution account ("Rollover E-Account") containing amounts which the participant had rolled into the E-Plan from another plan or IRA. The E-Accounts are and always have been nonforfeitable. The E-Accounts are transferred to the Plan without alteration. The Rollover E-Account shall only contain amounts transferred from the E-Plan and shall always be kept separate from the salary deferral, matching and rollover accounts that former E-Plan participants have in this Plan after August 1, 1996. The Deferral E-Account shall be merged with the former E-Plan participant's new salary deferral account in the Plan which will hold deferrals which are made from salary earned on or after August 1, 1996.

3. Eligibility. The age 18 minimum age requirement set forth in Plan

Section 2.1 shall not apply to any person who was ever employed by eShop Inc. (previously known as Ink Development Corporation). Every former employee of eShop Inc. or Ink Development Corporation who on or after August 1, 1996 is an eligible employee (as defined in Section 1.5 of the Plan) shall immediately begin active participation in the Plan without having to satisfy the age 18 minimum age requirement set forth in Plan Section 2.1. Any participant in the E-Plan on November 1, 1996 who is not an eligible employee as defined in Plan Section 1.5 shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee. Any person who is employed on November 1, 1996 but is neither a participant in the E-Plan nor an eligible employee as defined in Plan Section 1.5 shall become a participant in the Plan if and when they become an eligible employee.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their E-Accounts which are transferred to the Plan effective November 1, 1996. For purposes of determining their vested percentage in their employer matching contribution account in this Plan, participants shall be credited with the whole years of vesting service credited to them under the E-Plan as of December 31, 1995. Beginning with the 1996 plan year (commencing January 1, 1996), the participant shall begin to earn vesting service credit under the elapsed time method as set forth in Article V of the Plan. In addition, if a participant worked at least 1,000 hours between January 1, 1996 and October 31, 1996, the participant shall be credited with one year of service for 1996 even if they do not work every day in 1996. Notwithstanding anything in this Subsection 4 to the contrary, a participant who is described in the previous sentence shall not begin to earn credit under the elapsed time method of Article V until the 1997 plan year (commencing January 1, 1997).

5. Special Provision Applicable to the Rollover E-Account. A participant

may elect to withdraw from the Rollover E-Account once during each plan year, any amount up to 100% of the value of the Rollover E-Account. The participant shall notify the plan administrator of his election to make a withdrawal under this Section. The distribution will be made as soon as reasonably practicable after such notice is given.

6. Plan Loans. Any loans from the E-Plan to an E-Plan participant which

are outstanding on November 1, 1996 shall be transferred to the Plan in kind as an asset allocated to the participant's E-Accounts. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her E-Plan loan documents.

C. Former Accounts and Participants of Dimension X 401(k) Plan

1. History of Corporate Merger. On May 14, 1997, Dimension X was merged

with DX Acquisition Inc., a wholly-owned subsidiary of Microsoft Corporation, with Dimension X being the surviving corporation and becoming a wholly-owned subsidiary of Microsoft Corporation. Over several months after the corporate merger, the employees of Dimension X became employees of Microsoft Corporation. At the time of the merger with DX Acquisition Inc., Dimension X was the sponsor of the Dimension X 401(k) Plan ("D-Plan"). The plan remained in existence after Dimension X was merged into the DX Acquisition Inc.

2. Plan Merger. Effective January 1, 1998, the D-Plan is merged into the

Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document.

The D-Plan contains employee salary deferral contributions, and employer discretionary matching contributions. No employee after-tax contributions were made, nor were any employer discretionary contributions made. As of January 1, 1998, there were no roll-over accounts maintained in the D-Plan. The salary deferral contributions have always been nonforfeitable. The employer matching contributions are 100% vested pursuant to the amendment to the Dimension X 401(k) Plan effective April 1, 1997. The employer matching D-accounts and the salary deferral D-accounts are transferred to the Plan without alteration. At the discretion of the Plan Administrator, these D-accounts may be consolidated with other accounts made to the Plan by former D-Plan participants after the date of the plan merger.

3. Eligibility. Any participant in the Dimension X 401(k) Plan on May 14,

1997 who on January 1, 1998 is an eligible employee (as defined in Section 1.5 of the Plan) and who has not previously entered the Plan shall begin active participation in the Plan on January 1,

1998, the date of the merger of the plans. Such participant shall not be required to satisfy the age 18 minimum age requirement set forth in Plan Section 1.5 nor be required to be employed through an entry date. A participant for these purposes shall include a person who maintained an account balance in the Dimension X 401(k) Plan or who was eligible to make deferrals under the Dimension X 401(k) Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their D-accounts which are transferred to the Plan effective January 1, 1998. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (i.e., matching contributions made by Microsoft Corporation after January 1, 1998), participants shall be credited with the whole years of service credited to them under the D-Plan as of their last computation date prior to January 1, 1998. For the period of time from the last computation date prior to January 1, 1998 until the next computation date following January 1, 1998, the participant shall be credited with the greater of: (1) the period of service that would be credited to the employee under the elapsed time method as set forth in Article V of the Plan for his service during the 12 month period following the participant's last computation date which is prior to January 1, 1998; or (2) a year of service if the participant worked at least 1,000 hours between his/her last computation date before January 1, 1998 and January 1, 1998. For these purposes, a computation date shall be the anniversary date of a participant's first date of employment with Dimension X. Beginning on the last day of the period described in (1) or (2) of the third sentence of this subsection 4, whichever is applicable, a participant shall earn vesting credit under the elapsed time method set forth in Article V of the Plan.

5. Special Provisions Applicable. There are no special provisions

applicable to D-accounts.

6. Plan Loans. Any loans from the D-Plan to a D-Plan participant which

are outstanding on January 1, 1998 shall be transferred to the Plan in kind as an asset allocated to the participant's D-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her D-Plan loan documents.

D. Former Accounts and Participants of Vxtreme, Inc. 401(k) Retirement Plan

1. History of Corporate Merger. On July 30, 1997, Vxtreme, Inc.

("Vxtreme") was merged with Microsoft Investments Washington Parent, Inc., a wholly owned subsidiary of Microsoft Corporation with Vxtreme being the surviving corporation and becoming a wholly-owned subsidiary of Microsoft Corporation. At the time of the merger, Vxtreme sponsored a profit sharing plan with a 401(k) component, the Vxtreme, Inc. 401(k) Retirement Plan ("VX-Plan"). Although the VX-Plan continued in existence after the corporate merger, most of the employees of Vxtreme after the merger became employees of Microsoft Corporation.

2. Plan Merger. Effective January 1, 1998, the VX-Plan is merged into the

Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document.

The VX-Plan contains only salary deferral contributions, and roll-over contributions ("VX-Accounts"). The VX-Plan does not provide for employer contributions nor employee after-tax contributions, nor has it ever provided for such contributions in the past. The salary deferral contributions and the roll-over contributions to the VX-Plan have always been nonforfeitable. The salary deferral VX-Accounts and the roll-over VX-Accounts are transferred to the Plan without alteration. The salary deferral VX-Accounts and the roll-over VX-Accounts shall be consolidated with each other (hereinafter collectively referred to as VX-Accounts),

however, they will be kept separate from any contributions made to the Plan by or on behalf of former VX-Plan participants after January 1, 1998.

3. Eligibility. Any employee of VXtreme on January 1, 1998 who is an

eligible employee (as defined in Section 1.5 of the Plan) shall begin active participation in the Plan on January 1, 1998, the date of the merger of the plans. Any participant of the VX-Plan on January 1, 1998 who is not an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan section 1.5. Such former participant in the VX-Plan shall not be required to be employed through an entry date before he/she can become a participant under the Plan. Any person employed by VXtreme after January 1, 1998 who was not employed by VXtreme at any time on or before January 1, 1998 shall be required to satisfy all of the eligibility conditions of Plan Sections 1.5 and 2.1, and must be employed through an entry date before he/she will become a participant under the Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their VX-Accounts which are transferred to the Plan effective January 1, 1998. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (i.e., matching contributions made by Microsoft Corporation after January 1, 1998), participants shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at VXtreme.

5. Special Provisions Applicable. The following special provisions apply

only to the VX-Accounts. With respect to the VX-Accounts, the following special provisions shall supersede any other provisions of this Plan which are inconsistent with the following provisions. However, to the extent the Plan is amended subsequent to this amendment in a way which gives

participants greater benefits or additional options not provided in this section, participants with a VX-Account shall be eligible for those additional benefits or options without violating this section.

6. Form of Benefit Payments. Unless the participant makes an election

otherwise, the participant (or beneficiary) shall receive the distribution of his or her VX-Account in the form of a lump-sum. The participant may however, elect to receive distributions from his or her VX-Account in the form of an annuity. There are five different annuity options that a participant may choose. These are: (1) a straight life annuity; (2) a single life annuity with a certain period of 5, 10, or 15 years; (3) a single life annuity with an installment refund; (4) a joint and survivor annuity with an installment refund and survivor percentages of 50, 66 and 2/3, or 100; or (5) a fixed period annuity for any period of whole months which is not less than 60 and does not exceed the joint life expectancies of the participant and the named beneficiary. If a participant chooses a life annuity form of distribution, the provisions of Article XX of the Plan shall apply. If at the time of distribution to a participant or beneficiary the participant's total vested account balance in the Plan (including VX-Account and other accounts) does not exceed \$5,000 (and never exceeded \$5,000 at the time of a prior distribution), the VX-Account balance will be distributed in an immediate lump-sum cash payment.

7. Plan Loans. Any loans from the VX-Plan to a VX-Plan participant which

are outstanding on January 1, 1998 shall be transferred to the Plan in kind as an asset allocated to the participant's VX-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her VX-Plan loan documents. If a participant in the VX-Plan requests a loan after January 1, 1998 of a portion

of his or her VX-Account, spousal consent will not be required unless the participant has selected a life annuity form of distribution with respect to his or her VX-Account balance.

E. Former Accounts and Participants of WebTV 401(k) Plan

1. History of Corporate Merger. On August 1, 1997, Microsoft Corporation

purchased a controlling interest in WebTV Networks, Inc. ("WebTV"). Through a recapitalization, WebTV became a controlled subsidiary of Microsoft Corporation. WebTV remained in existence after the recapitalization and WebTV employees continued to be employed by WebTV. At the time of the recapitalization, WebTV sponsored the WebTV 401(k) Plan (the "W-Plan"). The W-Plan continued in existence after the recapitalization of WebTV and employees of WebTV continued to participate in the W-Plan.

2. Plan Merger. Effective March 1, 1998, the W-Plan is merged into the

Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document.

The W-Plan contains only employee salary deferral contributions, and roll-over contributions ("W-Accounts"). No employee after-tax, employer matching, or employer discretionary contributions were ever made to the W-Plan. The salary deferral contributions and the roll-over contributions to the W-Plan have always been nonforfeitable. The salary deferral W-Accounts and the roll-over W-Accounts are transferred to the Plan without alteration. The salary deferral W-Accounts and the roll-over W-Accounts shall be consolidated with each other, however, they will be kept separate from any contributions made to the Plan by or on behalf of former W-Plan participants after March 1, 1998.

3. Eligibility. Any employee of WebTV on March 1, 1998 who is an eligible

employee (as defined in Section 1.5 of the Plan) and who has not previously entered the Plan

shall begin active participation in the Plan on March 1, 1998, the date of the merger of the plans. Any participant of the W-Plan on March 1, 1998 who is not an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan section 1.5. Such former participant in the W-Plan shall not be required to be employed through an entry date before he/she can become a participant in the Plan. Any person employed by WebTV after March 1, 1998 who was not employed by WebTV at any time on or before March 1, 1998 shall be required to satisfy all of the eligibility conditions of Plan Sections 1.5 and 2.1, and must be employed through an entry date before he/she will become a participant under the Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their W-Accounts which are transferred to the Plan effective March 1, 1998. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (i.e., matching contributions made after March 1, 1998), participants shall be credited with the whole years of service credited to them under the W-Plan as of March 31, 1997. For the 12-month period of time commencing on April 1, 1997, the participant shall be credited with the greater of: (1) the period of service that would be credited to the employee under the elapsed time method as set forth in Article V of the Plan for his service during the 12 month period ending March 31, 1998; or (2) a year of service if the participant worked at least 1,000 hours between April 1, 1997 and March 1, 1998 even if they did not work every day during this period. Beginning March 31, 1998, participants shall earn vesting credit under the elapsed time method set forth in Article V of the Plan.

5. Special Provisions Applicable. The following special provisions apply

only to the W-Accounts. With respect to the W-Accounts, the following special provisions shall supersede any other provisions of this Plan which are inconsistent with the following provisions. However, to the extent the Plan is amended subsequent to this amendment in a way which gives participants greater benefits or additional options not provided in this section, participants with a W-Account shall be eligible for those additional benefits or options without violating this section.

6. Form of Benefit Payments. The participant may elect to have his or her

W-Account distributed in a single lump sum payment or in installments, in cash or in kind or in a combination of both. Participants may elect to have their W-Accounts distributed in substantially equal installments over a period which is no longer than the participant's life expectancy or the joint life expectancy of the participant and the participant's designated beneficiary. If at the time of distribution to a participant or beneficiary the participant's total vested account balance in the Plan (including the W-Account and other accounts) does not exceed \$5,000 (and never exceeded \$5,000 at the time of a prior distribution), then the W-Account balance will be distributed in an immediate lump sum payment, in cash or in kind or a combination of both, as elected by the participant or beneficiary.

7. Plan Loans. Any loans from the W-Plan to a W-Plan participant which

are outstanding on March 1, 1998 shall be transferred to the Plan in kind as an asset allocated to the participant's W-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her W-Plan loan documents.

F. Former Accounts and Participants of Hotmail Corporation 401(k) Plan

1. History of Corporate Merger. On December 30, 1997 Hotmail Corporation

was merged with Micro HM Inc., a wholly-owned subsidiary of Microsoft Corporation, with Hotmail Corporation being the surviving corporation and becoming a wholly-owned subsidiary of Microsoft Corporation. At the time of the merger with Micro HM Inc., Hotmail Corporation was the sponsor of the Hotmail Corporation 401(k) Plan ("H-Plan"). The plan remained in existence after Hotmail Corporation was merged into Micro HM Inc.

2. Plan Merger. Effective April 1, 1998, the H-Plan is merged into the

Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document.

The H-Plan contains employee salary deferral contributions and rollover contributions only ("H-Accounts"). No employee after-tax contributions were made, nor were any employer matching or discretionary contributions made. The salary deferral accounts and the rollover accounts have always been nonforfeitable. The salary deferral accounts and the rollover accounts are transferred to the Plan without alteration. At the discretion of the Plan Administrator, these H-Accounts (the salary deferral accounts and the rollover accounts) may be consolidated with each other, however, they will be kept separate from any contributions made to the Plan by or on behalf of former H-Plan participants after April 1, 1998.

3. Eligibility. Any employee of Hotmail Corporation who on April 1, 1998

is a participant in the Hotmail Corporation 401(k) Plan and is an eligible employee (as defined in Section 1.5 of the Plan) shall begin active participation in the Plan on April 1, 1998, the date of the merger of the plans. Such participant shall not be required to be employed through an entry date as set forth in Plan Section 2.4. A participant for these purposes shall include a person who

maintained an account balance in the Hotmail Corporation 401(k) Plan or who was eligible to make deferrals under the Hotmail Corporation 401(k) Plan. Any participant of the H-Plan on April 1, 1998 who is not an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan Section 1.5. Such former participant in the H-Plan shall not be required to be employed through an entry date before he/she can become a participant in the Plan. Any person employed by Hotmail Corporation after April 1, 1998 who was not employed by Hotmail Corporation at any time on or before April 1, 1998 shall be required to satisfy all of the eligibility conditions of Plan Sections 1.5 and 2.1, and must be employed through an entry date before he/she will become a participant under the Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their H-Accounts which are transferred to the Plan effective April 1, 1998. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (i.e., matching contributions made by Microsoft Corporation after April 1, 1998), participants shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at Hotmail Corporation. The H-Plan did not calculate vesting service because all contributions were 100% vested when made.

5. Special Provisions Applicable. The following special provisions apply

only to the H-Accounts. With respect to the H-Accounts, the following special provisions shall supersede any other provisions of this plan which are inconsistent with the following provisions. However, to the extent the Plan is amended subsequent to this amendment in a way which gives participants greater benefits or additional options not provided in this section, participants with

an H-Account shall be eligible for those additional benefits or options without violating this section.

6. Form of Benefit Payments. Unless the participant makes an election

otherwise, the participant (or beneficiary) shall receive the distribution of his or her H-Account in the form of a lump-sum, either in cash or in kind or in a combination of both. The participant may, however, elect to receive distributions from his or her H-Accounts in the form of installments payable in cash or in kind, or part in cash and part in kind over a period not in excess of that required to comply with Code (S)401(a)(9). If at the time of distribution to the participant or beneficiary the participant's total vested account balance in the Plan (including H-Accounts and all other accounts) does not exceed \$5,000 (and never exceeded \$5,000 at the time of a prior distribution), then the H-Account balance will be distributed in an immediate lump sum payment, in cash or in kind or a combination of both, as elected by the participant or beneficiary.

7. Plan Loans. Any loans from the H-Plan to an H-Plan participant which

are outstanding on April 1, 1998 shall be transferred to the Plan in kind as an asset allocated to the participant's H-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her H-Plan loan documents.

G. Former Accounts and Participants of MSNBC Interactive News 401(k) Plan

1. History of Establishment of MSNBC Interactive News L.L.C. MSNBC

Interactive News L.L.C. was established in 1996 as a joint venture between Microsoft Corporation (and certain of its affiliates) and National Broadcast Company (and certain of its affiliates). MSNBC Interactive News L.L.C. sponsors the MSNBC Interactive News 401(k) Plan

("MSNBC Plan"), and such plan provides service credit for vesting purposes to former employees of National Broadcast Company.

2. Plan Merger. Effective January 1, 1999, the MSNBC Plan is merged into

the Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document.

The MSNBC Plan contains employee salary deferral contributions, employer matching contributions, employee after-tax contributions, and rollover contributions ("MSNBC-Accounts"). The MSNBC-Accounts are hereby made 100% vested, and are transferred without alteration and shall be kept separate from the other Plan accounts. However, the Plan Administrator may, in his discretion, combine certain portions of the MSNBC-Accounts with the other Plan accounts (e.g., MSNBC salary deferrals with Plan salary deferrals, MSNBC after-tax contributions with Plan after-tax contributions) to the extent such combinations comply with the terms of the Plan and applicable laws. Except to the extent permitted by tax regulations (including Treasury Regulation (S)1.411(d)-4), amounts transferred from the MSNBC Plan that are attributable to elective contributions (as defined in Treasury Regulation (S)1.401(k)-1(g)(3)), including amounts treated as elective contributions, shall be subject to the distribution limitations provided for in Treasury Regulation (S)1.401(k)-1(d).

3. Eligibility. Any employee of the MSNBC Interactive News L.L.C. who on

December 31, 1998 is a participant in the MSNBC Plan and who on January 1 or 2, 1999 is an eligible employee (as defined in Section 1.5 of the Plan) shall begin active participation in the Plan on January 1, 1999. A participant for these purposes shall include a person who maintained an account balance in the MSNBC Plan or who was eligible to make deferrals under the MSNBC Plan. Any participant of the MSNBC Plan who on January 1 or 2, 1999 is not an eligible

employee as defined in Plan Section 1.5 (e.g., a temporary employee, an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan Section 1.5. Such former participant in the MSNBC Plan shall not be required to be employed through an entry date before he/she can become a participant in the Plan. Any person employed by the MSNBC Interactive News L.L.C. after January 2, 1999, who was not employed by MSNBC Interactive News L.L.C. at any time on or before January 2, 1999 shall be required to satisfy all of the eligibility conditions of Plan Sections 1.5 and 2.1, and must be employed through an entry date before he/she will become eligible to participate in the Plan.

4. Vesting and Vesting Service Credit. Participants in the MSNBC Plan on

December 31, 1998 are 100% vested in their MSNBC-Accounts that are transferred to the Plan effective January 1, 1999, and are 100% vested in their employer matching contribution accounts in the Plan going forward. For purposes of determining the vested percentage in the employer matching contribution account in this Plan (i.e., matching contributions made by MSNBC after January 1, 1999) for employees who are not participants in the MSNBC Plan on December 31, 1998 (e.g., those hired by MSNBC Interactive News L.L.C. after December 31, 1998), such employees shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at MSNBC Interactive News L.L.C. and, for employees of MSNBC Interactive News L.L.C., service with National Broadcast Company. Service with National Broadcast Company shall not be counted for those employed by Microsoft Corporation or other affiliates thereof unless the employee worked for MSNBC Interactive News L.L.C. between working for National Broadcast Company and Microsoft Corporation or its affiliates.

5. Special Provisions Applicable. There are no special provisions

applicable to the MSNBC-Accounts.

H. Former Accounts and Participants of Virtual World Entertainment Group, Inc.
Employees 401(k) Plan

1. History of Corporate Merger. On January 11, 1999, Virtual World

Entertainment Group, Inc. ("VWEG") was merged with a wholly-owned subsidiary of Microsoft Corporation, and VWEG was the surviving corporation. FASA Interactive Technology, Inc. ("FASA") remained a wholly-owned subsidiary of VWEG. Since the corporate merger, neither VWEG nor FASA have had any employees. At the time of the merger, VWEG was the sponsor of the Virtual World Entertainment Group, Inc. Employees 401(k) Plan ("VWEG Plan"), and FASA was a participating employer in the VWEG Plan. The VWEG Plan remained in existence after the corporate merger.

2. Plan Merger and Asset Transfer. Effective July 1, 1999, the VWEG-Plan

is merged into the Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document. Upon the Plan Administrator's receipt of satisfactory evidence that (i) Virtual World Entertainment, LLC ("VWE") has established a defined contribution plan that is tax-qualified under Code Section 401(a), (ii) VWE wants its plan to receive a plan-to-plan transfer, and (iii) VWE's plan has been drafted to receive a plan-to-plan transfer in compliance with Code Sections 414(l) and 411(d)(6) and the treasury regulations thereunder, any assets and liabilities with respect to the VWEG-Accounts of persons currently employed by VWE shall be transferred to VWE's plan.

The VWEG-Plan contains employee salary deferral contributions, employer matching contributions and rollover contributions only ("VWEG-Accounts"). Employee after-tax contributions were not permitted. The salary deferral accounts and the rollover accounts have always been nonforfeitable. The employer matching account has been subject to a vesting

schedule. Effective July 1, 1999, all assets in the Plan as of such date are hereby made 100% vested. The salary deferral and employer match accounts are transferred to the Plan without alteration. At the discretion of the Plan Administrator, these VWEG-Accounts (the salary deferral and match accounts) may be consolidated with the respective Microsoft salary deferral and match accounts. The rollover accounts shall be kept in a separate acquisition rollover account.

3. Eligibility. Any participant of the VWEG-Plan on July 1, 1999 who is not

an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan Section 1.5. Such former participant in the VWEG-Plan shall not be required to be employed through an entry date before he/she can become a participant in the Plan.

4. Vesting. Participants are 100% vested in their VWEG-Accounts which are

transferred to the Plan effective July 1, 1999. In addition, Participants with such VWEG-Accounts shall be 100% vested in future employer matching contributions made to this Plan (the Microsoft Plan).

5. Special Provisions Applicable. The following special provision applies

only to the rollover accounts in the VWEG Plan that are transferred to this Plan as part of the VWEG-Accounts. A Participant may request an inservice withdrawal (i.e., withdrawal while still employed) from such rollover accounts once per Plan Year. This special withdrawal provision shall not apply to rollovers made to the Plan after July 1, 1999.

6. Plan Loans. Any loans from the VWEG-Plan to a VWEG-Plan participant which

are outstanding on July 1, 1999 shall be transferred to the Plan in kind as an asset allocated to the

participant's VWEG-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her VWEG-Plan loan documents.

I. Former Accounts and Participants of Compare Net 401(k) Plan

1. History of Corporate Merger. On March 4, 1999, Compare Net, Inc. was

merged with MS-Jupiter, Inc., a wholly-owned subsidiary of Microsoft Corporation, with Compare Net, Inc. being the surviving corporation and becoming a wholly-owned subsidiary of Microsoft Corporation. At the time of the merger with MS-Jupiter, Inc., Compare Net, Inc. was the sponsor of the Compare Net 401(k) Plan ("CN-Plan"). The plan remained in existence after Compare Net, Inc. was merged with MS-Jupiter, Inc.

2. Plan Merger. Effective September 1, 1999, the CN-Plan is merged

into the Plan, and the plan document for the Plan, as amended previously and by this amendment, is the surviving plan document. The Plan consists only of employee pre-tax deferrals, and rollovers made from prior plans or IRAs ("CN-Accounts"). The CN-Accounts are transferred to the Plan without alteration and shall be kept separate from other accounts held in the Plan by former CN-Plan participants. No discretionary employer contributions were made. Because any prior rollovers are subject to immediate withdrawal, they will be kept in a separate acquisition rollover account from the employee pre-tax deferrals.

3. Eligibility. All former employees of Compare Net, Inc. were

terminated from Compare Net, Inc. prior to July 1, 1999. Those employed by Microsoft Corporation as an eligible employee (as defined in Section 1.5 of the Plan) prior to July 1, 1999 entered the Plan on July 1, 1999. Any former participant in the CN-Plan who is not an eligible employee (as defined in Section 1.5 of the Plan) shall enter the Plan immediately upon becoming an eligible employee,

and shall not be required to be employed through an entry date before he/she will become a participant under the Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their CN-Accounts which are transferred from the CN-Plan effective September 1, 1999. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (i.e., matching contributions made by Microsoft Corporation after July 1, 1999), participants shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at Compare Net, Inc.

5. Special Provisions Applicable. The following special provisions apply

only to the CN-Accounts. With respect to the CN-Accounts, the following special provisions shall supersede any other provisions of this Plan which are inconsistent with the following provisions. For example, in-kind distributions of Microsoft stock are permitted on lump sum distributions to the extent a CN-Account is invested in Microsoft stock at the time of the distribution, because such distributions are permitted with respect to other Plan accounts and would not be inconsistent with the following special provisions. In addition, to the extent the Plan is amended subsequent to this amendment in a way which gives participants greater benefits or additional options not provided in this section, participants with a CN-Account shall be eligible for those additional benefits or options without violating this section.

6. Form of Benefit Payments. Unless the participant makes an election

otherwise, the participant (or beneficiary) shall receive the distribution of his or her CN-Account in the form of a cash lump sum. Participants with vested account balances in excess of \$5,000 may elect to receive their distribution in the form of monthly cash installments over a period certain which

may not exceed the life expectancy of the participant or the joint life expectancy of the participant and his or her designated beneficiary.

7. Inservice Withdrawals of Prior Rollovers. Participants who rolled

amounts into the CN-Plan from another plan or IRA may withdraw such amounts and the earnings thereon at any time.

8. Plan Loans. Any loans from the CN-Plan to a CN-Plan participant

which are outstanding on September 1, 1999 shall be transferred to the Plan in kind as an asset allocated to the participant's CN-Account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her CN-Plan loan documents.

J. Former Accounts and Participants of Visio Corporation

1. History of Corporate Merger. On January 7, 2000, Visio Corporation

became a wholly-owned subsidiary of Microsoft Corporation as a result of a merger between Visio Corporation and a subsidiary of Microsoft Corporation. At the time of the merger with the subsidiary of Microsoft Corporation, Visio Corporation was the sponsor of the Visio 401(k) Plan ("VC-Plan"). The VC-Plan was frozen as of February 1, 2000, and Visio employees stopped making salary deferral contributions to the VC-Plan effective February 1, 2000. The Visio employees will be eligible to enter the Microsoft Savings Plus 401(k) Plan ("Plan") effective March 1, 2000.

2. Plan Merger. Effective July 1, 2000, the VC-Plan is merged into the

Plan and this plan document for the Plan, as amended previously and by this Amendment, is the surviving plan document.

The VC-Plan contains employee salary deferral contributions, employer matching contributions, and rollover contributions ("VC-Accounts"). Employee after-tax contributions were not permitted and discretionary employer contributions were never made. The salary deferral accounts and the rollover accounts have always been nonforfeitable. The employer matching account has been subject to a vesting schedule. Effective February 1, 2000, all accounts in the VC-Plan as of such date were made 100% vested. The salary deferral and employer match accounts are transferred to the Plan without alteration. The rollover accounts containing rollovers that were made to the VC-Plan shall be kept in a separate acquisition rollover account ("Rollover VC-Account").

3. Eligibility. Any participant of the VC-Plan on July 1, 2000, who is

not an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan Section 1.5. Such former participant in the VC-Plan shall renew active participation in the Plan immediately upon becoming an eligible employee as defined in Plan Section 1.5 and attaining age 18. Any person employed by Visio Corporation after July 1, 2000 who was not a participant in the VC-Plan on or before July 1, 2000 shall be required to satisfy all of the eligibility conditions of Plan Section 1.5 and 2.1, and must be employed through an entry date before he/she will become a participant under the Plan.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their VC-Accounts which are transferred to the Plan. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (e.g., matching contributions made by Microsoft Corporation after March 1, 2000), participants shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at Visio

Corporation. Notwithstanding the preceding sentence, employees who are employed by Visio Corporation on any date between March 1, 2000 and July 1, 2000 (inclusive) and who enter the Plan as participants between March 1, 2000 and July 1, 2000 (inclusive) shall be 100% vested in their employer matching contribution accounts in the Plan.

5. Special Provisions Applicable. The following special provisions apply

only to the VC-Accounts. With respect to the VC-Accounts, the following special provisions shall supersede any other provisions of this plan which are inconsistent with the following provisions. However, to the extent the Plan is amended subsequent to this amendment in a way which gives participants greater benefits or additional options not provided in this section, participants with a VC-Account shall be eligible for those additional benefits or options without violating this section.

6. Rollover VC-Account. A participant may elect to withdraw from the

Rollover VC-Account at any time, any amount up to 100% of the value of the Rollover VC-Account. The participant shall notify the plan administrator of his election to make a withdrawal under this Section. The distribution will be made as soon as reasonably practicable after such notice is given.

7. Form of Benefit Payments. The participant may elect to have his or

her VC-Accounts distributed in a single lump sum payment, in cash or in kind.

8. Plan Loans. All loans from the VC-Plan to a VC-Plan participant

which are outstanding on July 1, 2000 shall be transferred to the Plan in kind as an asset allocated to the participant's VC-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her VC-Plan loan documents.

K. Former Accounts and Participants of Entropic Research Laboratory, Inc.

Savings and Investment Plan

1. History of Corporate Merger. On November 4, 1999, Entropic Research

Laboratory, Inc. ("Entropic") became a wholly-owned subsidiary of Microsoft Corporation as a result of a merger between Entropic and a subsidiary of Microsoft Corporation. At the time of the merger with the subsidiary of Microsoft Corporation, Entropic was the sponsor of the Entropic Research Laboratory, Inc. Savings & Investment Plan ("ERL-Plan"). Participants in the ERL-Plan who became Microsoft employees on or before March 1, 2000 will be eligible to enter the Microsoft Savings Plus 401(k) Plan ("Plan") effective March 1, 2000.

2. Plan Merger. Effective March 1, 2000, the ERL-Plan is merged into the

Plan and this plan document for the Plan, as amended previously and by this Amendment, is the surviving plan document.

The ERL-Plan contains employee salary deferral contributions and rollover contributions ("ERL-Accounts"). Employee after-tax contributions were not permitted and discretionary employer contributions were never made. The salary deferral accounts and the rollover accounts have always been nonforfeitable. The salary deferral accounts are transferred to the Plan without alteration. The rollover accounts containing rollovers that were made to the ERL-Plan shall be kept in a separate acquisition rollover account ("Rollover ERL-Account").

3. Eligibility. Any participant of the ERL-Plan on March 1, 2000, who

is not an eligible employee as defined in Plan Section 1.5 (e.g., an intern) shall be an inactive participant in the Plan and shall actively participate in the Plan only if and when they become an eligible employee as defined in Plan Section 1.5. Such former participant in the ERL-Plan shall renew active

participation in the Plan immediately upon becoming an eligible employee as defined in Plan Section 1.5 and attaining age 18.

4. Vesting and Vesting Service Credit. Participants are 100% vested in

their ERL-Accounts which are transferred to the Plan. For purposes of determining their vested percentage in their employer matching contribution account in this Plan (e.g., matching contributions made by Microsoft Corporation), participants shall be credited with vesting service under the elapsed time method as set forth in Article V of the Plan for their service at Entropic.

5. Special Provisions Applicable. The following special provisions apply

only to the ERL-Accounts. With respect to the ERL-Accounts, the following special provisions shall supersede any other provisions of this Plan which are inconsistent with the following provisions. However, to the extent the Plan is amended subsequent to this amendment in a way which gives participants greater benefits or additional options not provided in this section, participants with a ERL-Account shall be eligible for those additional benefits or options without violating this section.

6. Rollover ERL-Account. A participant may elect to withdraw from the

Rollover ERL-Account as of a valuation date following such election, any amount up to 100% of the value of the Rollover ERL-Account as of such valuation date. The participant shall notify the plan administrator of his election to make a withdrawal under this Section. The distribution will be made as soon as reasonably practicable after such notice is given.

7. Form of Benefit Payments. The participant may elect to have his or

her ERL-Accounts distributed in a single lump sum payment, in cash or in kind or in a combination of both. Participants may also elect to have their ERL-Accounts distributed in installments payable in cash or in kind, or in a combination of both over a period not to exceed the participant's life

expectancy or the joint life expectancy of the participant and spouse. If at the time of distribution to a participant or beneficiary the participant's total vested account balance in the Plan (including ERL-Accounts and other accounts) does not exceed \$5,000 (and never exceeded \$5,000 at the time of a prior distribution), then the ERL-Account balance will be distributed in an immediate lump sum payment, in cash or in kind or in a combination of both, as elected by the participant or beneficiary, and installment payments will not be a payment option.

8. Timing of Death Benefit Payments. Upon a participant's death, the

distribution of the participant's ERL-Account shall be made or commence at the times specified in Section 7.3 of the Plan. The distribution shall be in cash or in kind, or in a combination of both, or in installments payable in cash or in kind, or in a combination of both over a period not to exceed the participant's life expectancy or the joint life expectancy of the participant and spouse, as elected by the participant or beneficiary. Notwithstanding the foregoing, if the participant's total vested account balance in the Plan (including ERL-Accounts and other accounts) does not exceed \$5,000, distribution to the beneficiary shall be made in an immediate lump sum payment in cash or in kind, or in a combination of both, as elected by the beneficiary.

If a participant dies prior to the commencement of the distribution of his or her ERL-Account and is survived by a designated beneficiary who is not his or her spouse, the distribution must be made by December 31 of the calendar year in which the fifth anniversary of the participant's death occurs unless the beneficiary elects to have installment payments commence by the end of the first calendar year after the participant's death. If the designated beneficiary is the participant's spouse, the spouse may elect to delay distribution or commencement of installment payments until the end of the calendar year in which the participant would have attained age 65. If the participant dies prior to commencement of the distribution of his or her

ERL-Account and is not survived by a designated beneficiary, distribution shall be made in an immediate lump sum payment in cash or in kind, or in a combination of both, as elected by the beneficiary.

If the participant died while he was receiving installment payments of his ERL-Account, the remaining portion of the ERL-Account shall be distributed at least as rapidly as under the length and frequency of installment payments which the participant had selected.

9. Plan Loans. All loans from the ERL-Plan to a ERL-Plan participant

which are outstanding on March 1, 2000 shall be transferred to the Plan in kind as an asset allocated to the participant's ERL-Plan account. A participant with such a loan outstanding shall have all of the rights and be subject to all of the conditions of his or her loan as set forth in his or her ERL-Plan loan documents.

APPENDIX VI

Section 2.5

EARLY ENTRY FOR CERTAIN EMPLOYEES OF ACQUIRED COMPANIES

Any eligible employee who immediately following one of the relevant acquisition dates listed below was employed by Microsoft Corporation (or any company which is affiliated with Microsoft, within the meaning of Code Sections 414(b), (c), (m), or (o)), and on the date immediately preceding the relevant acquisition date was employed by the relevant company listed below, shall enter the Plan on the later of (i) the relevant entry dates listed below, or (ii) the first payroll period immediately after becoming an eligible employee and attaining age 18.

Company	Acquisition Date	Plan Entry Date
NetCarta Corporation	January 31, 1997	March 1, 1997
Interse' Corporation	February 25, 1997	April 1, 1997
Visio Corporation	January 7, 2000	March 1, 2000

Exhibit 13.1

Quarterly Information
(In millions, except per share data) (Unaudited)

	Quarter Ended				
	Sept. 30	Dec. 31	Mar. 31	June 30	Year

1998					
Revenue	\$ 3,334	\$ 3,792	\$ 3,984	\$4,152	\$15,262
Gross profit	2,800	3,179	3,344	3,479	12,802
Net income	663	1,133	1,337	1,357	4,490
Basic earnings per share	0.14	0.24	0.27	0.27	0.92
Diluted earnings per share	0.13	0.21	0.25	0.25	0.84
Common stock price per share:					
High	37.69	36.66	45.47	54.28	54.28
Low	30.82	29.50	31.10	40.94	29.50

1999					
Revenue	\$ 4,193	\$ 5,195	\$ 4,595	\$5,764	\$19,747
Gross profit	3,544	4,407	3,887	5,095	16,933
Net income	1,683	1,983	1,917	2,202	7,785
Basic earnings per share	0.34	0.40	0.38	0.43	1.54
Diluted earnings per share	0.31	0.36	0.35	0.40	1.42
Common stock price per share:					
High	59.81	72.00	94.63	95.63	95.63
Low	47.25	43.88	68.00	75.50	43.88

2000					
Revenue	\$ 5,384	\$ 6,112	\$ 5,656	\$5,804	\$22,956
Gross profit	4,672	5,356	4,904	5,022	19,954
Net income	2,191	2,436	2,385	2,409	9,421
Basic earnings per share	0.43	0.47	0.46	0.46	1.81
Diluted earnings per share	0.40	0.44	0.43	0.44	1.70
Common stock price per share:					
High	100.75	119.94	118.63	96.50	119.94
Low	81.63	84.38	88.13	60.38	60.38
=====					

The Company's common stock is traded on The Nasdaq Stock Market under the symbol MSFT. On July 31, 2000, there were 107,824 registered holders of record of the Company's common stock. The Company has not paid cash dividends on its common stock.

Exhibit 13.2

Financial Highlights
(In millions, except earnings per share)

Year Ended June 30	1996	1997	1998	1999	2000
Revenue	\$ 9,050	\$11,936	\$15,262	\$19,747	\$22,956
Net income	2,195	3,454	4,490	7,785	9,421
Diluted earnings per share	0.43	0.66	0.84	1.42	1.70
Cash and short-term investments	6,940	8,966	13,927	17,236	23,798
Total assets	10,093	14,387	22,357	38,625	52,150
Stockholders' equity	6,908	10,777	16,627	28,438	41,368

Management's Discussion and Analysis

Results of Operations for 1998, 1999, and 2000

Microsoft develops, manufactures, licenses, and supports a wide range of software products for a multitude of computing devices. Microsoft software includes scalable operating systems for servers, personal computers (PCs), and intelligent devices; server applications for client/server environments; knowledge worker productivity applications; and software development tools. The Company's online efforts include the MSN network of Internet products and services and alliances with companies involved with broadband access and various forms of digital interactivity. Microsoft also licenses consumer software programs; sells hardware devices; provides consulting services; trains and certifies system integrators and developers; and researches and develops advanced technologies for future software products.

This Management's Discussion and Analysis contains statements that are forward-looking. These statements are based on current expectations that are subject to risks and uncertainties. Actual results will vary because of factors discussed below under "Issues and Uncertainties."

Revenue

The Company's revenue growth rate was 28% in fiscal 1998, 29% in fiscal 1999, and 16% in fiscal 2000. Revenue growth in fiscal 2000 was driven by strong licensing of the Microsoft suite of products including Microsoft Windows NT(R) Workstation, Windows 2000 Professional, Windows NT Server, Windows 2000 Server, Microsoft Office 2000, and SQL Server 7.0. Windows 2000, released during fiscal 2000, is the next version of the Windows NT operating system. Consumer revenue, including Internet access, the online properties, entertainment software, and hardware peripherals also grew strongly. Partially offsetting those items was slower growth from Windows operating systems sold through the original equipment manufacturer (OEM) channel due to slow demand for business PCs throughout a significant portion of fiscal 2000. Revenue growth in fiscal 1998 and 1999 reflected the continued adoption of Windows operating systems and Microsoft Office. Software organizational license increases in 1998, 1999, and 2000 have been a significant factor in the Company's revenue growth. The average selling price per license has decreased, primarily because of general shifts in the sales mix from retail packaged products to licensing programs, from new products to product upgrades, and from stand-alone desktop applications to integrated product suites. Average revenue per license from OEM licenses and organizational license programs is lower than average revenue per license from retail versions. Likewise, product upgrades have lower prices than new products. See accompanying notes to financial statements.

The Company's business model continues to evolve from retailing packaged products to licensing organizational licenses and subscriptions. The Company's products are generally delivered to end users through a multi-tiered channel of distributors and resellers, but the distribution model is also changing for selected retail products that are now being shipped straight to resellers and other selected products that are now being shipped straight to end users. Due to these changes in channel mechanics and the business model, the risk of returns of product from distributors and resellers has declined. Accordingly, the estimate for future product returns was reduced by \$250 million in the fourth quarter of fiscal 1999.

In fiscal 1999, Microsoft made two changes related to the ratable recognition of revenue for a portion of its revenue for certain products. American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, requires companies to use the average sales price of each undelivered element of software arrangements to unbundle revenue. Prior authoritative guidance allowed a comparison of the total price differential between a licensed product sold through different channels of distribution to derive the value of undelivered elements offered to customers acquiring product from one channel but not the other. Upon adoption of this new rule in the fourth quarter of fiscal 1999, the percentages of the total arrangement treated as unearned decreased. This change reduced the amount of Microsoft Windows and Microsoft Office sales treated as unearned and increased the amount of revenue recognized upon shipment. Additionally, as part of the Company's long range planning process and a review of product shipment cycles, it was determined that the life cycle of Windows should be extended from two years to three years.

Business Divisions

Microsoft has three major segments: Productivity Applications and Developer; Windows Platforms; and Consumer and Other.

Productivity Applications and Developer

Productivity Applications and Developer revenue was \$7.04 billion, \$8.82 billion, and \$10.47 billion in 1998, 1999, and 2000. Productivity Applications and Developer products include desktop applications such as Microsoft Office, server applications such as Microsoft SQL Server and Microsoft Exchange Server, and software developer tools.

In fiscal 2000, revenue growth from Microsoft Office integrated suites, including the Premium, Professional, Small Business, and Standard Editions was very solid. Revenue from server applications grew strongly compared to fiscal 1999, largely due to the strong success of SQL Server 7.0. Software developer tools revenue declined, due to increased suite licensing versus stand-alone licenses, and the lack of a release upgrade of the Visual Studio(R) development system.

In fiscal 1999, revenue growth from Microsoft Office integrated suites was strong. Revenue from server applications also grew strongly, reflecting, in part, the release of SQL Server 7.0. The Visual Studio 6.0 development system drove healthy software developer tools revenue growth. In fiscal 1998, revenue from the various Microsoft Office integrated suites increased strongly, while revenue from stand-alone versions of Microsoft Excel, Microsoft Word, Microsoft Access, and Microsoft PowerPoint(R) presentation graphics program decreased.

Windows Platforms

Windows Platforms revenue was \$6.28 billion, \$8.50 billion, and \$9.38 billion in 1998, 1999, and 2000. Windows Platforms products include primarily Windows 98, Windows 2000 Professional, Windows 2000 Server, Windows NT Workstation, and Windows NT Server.

In fiscal 2000, Windows desktop operating systems revenue growth was modest due to soft demand for business PCs during most of the year; a slowdown in shipments in anticipation of the post mid-year availability of Windows 2000 operating systems; and, as expected, a longer business migration cycle for the newest Windows operating system offerings. In addition, Windows desktop operating systems average earned revenue per licensed operating system decreased compared to fiscal 1999. Windows Platform Server revenue growth over fiscal 1999 was particularly strong led by increased adoption by customers of Windows NT Server and Windows 2000 Server.

In fiscal 1999, Windows units licensed through the OEM channel, particularly Windows NT Workstation, increased strongly over the prior year. Organizational licensing of Windows NT Workstation and Windows 98 also contributed to the growth. The revenue growth rate for Windows NT Server was healthy. In fiscal 1998, Windows units licensed through the OEM channel, including Windows 95, Windows 98, and Windows NT Workstation, exhibited robust growth over the prior year.

Consumer and Other

Consumer and Other revenue was \$1.94 billion, \$2.43 billion, and \$3.11 billion in 1998, 1999, and 2000. Consumer and Other products include Internet access and online services; learning and entertainment software; hardware devices; consulting services; and training and certification.

In fiscal 2000, online revenue growth was very strong and reflected higher subscriber totals, offset by lower net prices for Internet access subscriptions compared to the prior year. Additionally, the continued success of the Company's new hardware device offerings and strong sell-through of entertainment software produced robust revenue growth.

In fiscal 1999, online advertising revenue and consulting services rose substantially and Internet access revenue increased moderately, while revenue from hardware devices, consumer software, and Microsoft Press was relatively flat. In fiscal 1998, online revenue increased due to higher Internet access subscriber levels and hardware and learning and entertainment revenue increased.

Distribution Channels

Microsoft distributes its products primarily through OEM licenses, organizational licenses, online properties, and retail packaged products. OEM channel revenue represents license fees from original equipment manufacturers who preinstall Microsoft products, primarily on PCs. Microsoft has three major geographic sales and marketing organizations: the South Pacific and Americas Region; the Europe, Middle East, and Africa Region; and the Asia Region. Sales of organizational licenses and packaged products via these channels are primarily to and through distributors and resellers.

OEM revenue was \$4.72 billion in 1998, \$6.40 billion in 1999, and \$7.01 billion in 2000. The relatively low growth rate in fiscal 2000 was due to lower business PC shipment growth percentages, especially as a result of the soft demand for business PCs and component shortages for part of the year. These issues combined with post mid-year availability of the newest business operating system, Windows 2000 Professional, resulted in lower revenue growth. Average earned revenue per license also declined compared to the prior year, due in part to a mix shift to the lower-priced Windows 98 operating system reflecting the softness in demand for business PCs and lower prices on operating systems licensed through certain OEM channel sectors. In both fiscal 1999 and 1998, PC shipment growth coupled with an increased penetration of higher value 32-bit operating systems drove the OEM revenue increases.

South Pacific and Americas Region revenue was \$5.57 billion, \$7.25 billion, and \$8.33 billion in 1998, 1999, and 2000. In fiscal 2000, Office 2000 integrated suites, Windows 2000 Server, online revenue, and SQL Server sales were the primary drivers of the revenue growth. Strong retail sales of hardware devices and consumer software also contributed to the growth over the prior year. Revenue growth was particularly strong in Latin America and Australia, moderate in Canada, and modest in the United States. In fiscal 1999, server applications, Windows NT Server, Windows NT Workstation, and Microsoft Office all exhibited solid year-over-year growth rates. Organizational licensing activity was strong. Revenue growth was solid in the United States and moderate in Latin America and the South Pacific. In fiscal 1998, revenue growth reflected strong licensing of Microsoft Office.

Europe, Middle East, and Africa Region revenue was \$3.50 billion, \$4.33 billion, and \$5.02 billion in 1998, 1999, and 2000. In fiscal 2000, retail sales of Windows operating systems and Office licensing produced moderate growth in the region. Growth from SQL Server licensing, new hardware device offerings, and entertainment software was exceptionally strong. Revenue growth, measured in constant dollars, was very healthy in Germany and Italy, robust in the Middle East, and low in the United Kingdom. In fiscal 1999, all major products grew strongly over the prior year. Revenue growth was solid in the United Kingdom, Germany, and France, and was particularly high in Sweden, the Netherlands, and Spain. In fiscal 1998, organizational licensing of desktop applications and business systems grew strongly. Revenue growth was particularly high in the United Kingdom.

Asia Region revenue was \$1.48 billion in 1998, \$1.78 billion in 1999, and \$2.60 billion in 2000. In fiscal 2000, the region's growth rate reflected strong performance resulting from improved local economic conditions. Revenue growth was also influenced by robust growth of localized versions of Microsoft Office 2000, especially the Office Personal Edition sold in Japan; Windows platform and server licensing; and strong adoption of SQL Server. Revenue grew strongly in nearly all countries in the Asia region. In fiscal 1999, Japan, Taiwan, China, Hong Kong, and Southeast Asia had moderate revenue growth, while revenue grew very strongly in Korea. In fiscal 1998, revenue was relatively flat in Japan and Southeast Asia due to economic issues and weak currencies.

The Company's operating results are affected by foreign exchange rates. Approximately 32%, 29%, and 30% of the Company's revenue was collected in foreign currencies during 1998, 1999, and 2000. Since a portion of local currency revenue is hedged and much of the Company's international manufacturing costs and operating expenses are also incurred in local currencies, the impact of exchange rates is partially mitigated.

Operating Expenses

Cost of Revenue

Cost of revenue as a percent of revenue was 16.1% in 1998, 14.3% in 1999, and 13.1% in 2000. Cost of revenue in fiscal 2000 reflected lower costs associated with WebTV Networks' operations, partially offset by the growth in hardware peripherals costs. The percentage decreases in fiscal 1999 and 1998 resulted primarily from the trend in mix shift to OEM and organizational licenses. The decreases were also due to the shifts in mix to CD-ROMs, which carry lower cost of goods than floppy disks, and higher-margin Windows NT Server, other servers, and client access licenses in the BackOffice(R) product family. Additionally, cost of revenue in 1999 was positively impacted by a reduction in estimates of obsolete inventory and other manufacturing costs of \$67 million. As discussed previously, the Company's business model continues to evolve toward licensing from sales of packaged products through distribution channels. Consequently, risks associated with manufacturing and holding physical product have declined.

Research and Development

Microsoft continued to invest heavily in the future by funding research and development (R&D). The increase in fiscal 2000 was driven primarily by higher headcount-related costs. The increase in fiscal 1999 reflected higher development headcount-related costs offset by lower infrastructure and third-party development costs. Fiscal 1998 expenses were driven primarily by higher development headcount-related costs and third-party development costs.

In fiscal 1998, the Company acquired WebTV Networks, Inc., an online service that enables consumers to experience the Internet through their televisions via set-top terminals. Microsoft paid \$425 million in stock and cash. The accompanying fiscal 1998 income statement reflects a one-time write-off of in-process technologies under development by WebTV Networks of \$296 million.

Sales and Marketing

In fiscal 2000, sales and marketing expenses as a percentage of revenue increased due to higher relative marketing costs associated with new product releases and online marketing. In fiscal 1999, sales and marketing expense as a percentage of revenue decreased due to lower relative sales expenses and lower relative marketing costs. In fiscal 1998, the sales and marketing expense as a percent of revenue decreased due to lower relative sales expenses.

General and Administrative

Fiscal 2000 general and administrative expenses included a charge for the settlement of a lawsuit with Caldera, Inc. and also reflected increased legal fees and certain employee stock option-related expenses. The increase in fiscal years 1999 and 1998 were attributable to higher legal fees, settlement costs, and headcount-related costs necessary to support the Company's expanding operations.

Other Expenses

Other expenses incorporate miscellaneous items, including certain gains; recognition of Microsoft's share of joint venture activities for the MSNBC entities, TransPoint, and other joint venture activities; and charitable contributions and miscellaneous taxes.

Investment Income, Gain on Sales, and Income Taxes

Investment income increased primarily as a result of a larger investment portfolio generated by cash from operations in 1998, 1999, and 2000, coupled with realized gains from the sale of securities in 1999 and 2000.

In fiscal 2000, Microsoft sold the entertainment city guide portion of MSN Sidewalk to Ticketmaster Online-CitySearch, Inc. (TMCS) for a combination of TMCS stock and warrants with a value of \$223 million. The transaction also included a distribution arrangement. Microsoft recognized a gain of \$156 million on the sale and will recognize revenue amounts related to the distribution arrangement over the terms of the agreement. In fiscal 1999, Microsoft sold its Softimage, Inc. subsidiary to Avid Technology, Inc. for a pretax gain of \$160 million.

The effective tax rate for fiscal 2000 was 34.0%. Excluding the impact of the gain on the sale of Softimage, Inc., the effective tax rate for fiscal 1999 was 35.0%. The effective income tax rate for fiscal 1998 was 36.9%, reflecting the nondeductible write-off of WebTV in-process technologies.

Financial Condition

The Company's cash and short-term investment portfolio totaled \$23.80 billion at June 30, 2000. The portfolio consists primarily of fixed-income securities, diversified among industries and individual issuers. Microsoft's investments are generally liquid and investment grade. The portfolio is invested predominantly in U.S. dollar denominated securities, but also includes foreign currency positions in order to diversify financial risk. The portfolio is primarily invested in short-term securities to minimize interest rate risk and facilitate rapid deployment in the event of immediate cash needs.

Microsoft works with many technology companies and often provides investment funding as part of these alliances. During fiscal 2000, the Company purchased approximately \$400 million of Rogers Communications Inc. convertible preferred securities and \$200 million of Best Buy Co., Inc. common stock. Also, subsequent to fiscal year-end, Microsoft acquired an additional shareholding in Telewest Communications plc for approximately \$2.6 billion. During fiscal 1999, the Company purchased \$5.0 billion of AT&T convertible preferred securities and warrants, \$600 million of Nextel Communications, Inc. common stock, \$500 million of NTL, Inc. convertible preferred stock, \$330 million of United Pan-Europe Communications common stock, and \$200 million of Qwest Communications International Inc. common stock.

Microsoft and National Broadcasting Company (NBC) operate two MSNBC joint ventures: a 24-hour cable news and information channel, and an online news service. Microsoft is paying \$220 million over a five-year period that ends in 2001 for its interest in the cable venture and one-half of the operational funding of both joint ventures. Microsoft guarantees a portion of MSNBC debt.

Microsoft has no material long-term debt and has \$164 million of standby multicurrency lines of credit to support foreign currency hedging and cash management. Stockholders' equity at June 30, 2000 was \$41.37 billion.

Microsoft will continue to invest in sales, marketing, and product support infrastructure. Additionally, research and development activities will include investments in existing and advanced areas of technology, including using cash to acquire technology. Additions to property and equipment will continue, including new facilities and computer systems for R&D, sales and marketing, support, and administrative staff. Commitments for constructing new buildings were \$299 million on June 30, 2000. Cash will also be used to fund ventures and other strategic opportunities.

Since fiscal 1990, Microsoft has repurchased 765 million common shares while 1.99 billion shares were issued under the Company's employee stock option and purchase plans. Microsoft enhanced its repurchase program by selling put warrants. In January 2000, the Company terminated its stock buyback program. Subsequent to fiscal year-end 2000, the Company announced a share repurchase program which will provide shares for issuance to employees under the Company's stock option and stock purchase programs. The market value of all outstanding stock options was \$67 billion as of June 30, 2000. During December 1996, Microsoft issued 12.5 million shares of 2.75% convertible exchangeable preferred stock. Net proceeds of \$980 million were used to repurchase common shares. The Company's convertible preferred stock matured on December 15, 1999. Each preferred share was converted into 1.1273 common shares.

Management believes existing cash and short-term investments together with funds generated from operations will be sufficient to meet operating requirements. The Company's cash and short-term investments are available for strategic investments, mergers and acquisitions, and other potential large-scale cash needs that may arise. Microsoft has not paid cash dividends on its common stock.

Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, is effective for the Company as of July 1, 2000. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Adoption of these new accounting standards will result in cumulative after-tax reductions in net income of approximately \$350 million and other comprehensive income of approximately \$50 million in the first quarter of fiscal 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB 101B, which delays the implementation date of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company does not believe that adoption of this SAB will have a material impact on its financial statements.

In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 44, Accounting for Certain Transactions Involving Stock Compensation, which clarifies the application of APB 25 for certain issues. The interpretation is effective July 1, 2000, except for the provisions that relate to modifications that directly or indirectly reduce the exercise price of an award and the definition of an employee, which are effective after December 15, 1998. The Company does not believe that adoption of FIN 44 will have a material impact on its financial statements.

Issues and Uncertainties

While Microsoft management is optimistic about the Company's long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating its growth outlook.

Rapid Technological Change and Competition

Rapid change, uncertainty due to new and emerging technologies, and fierce competition characterize the software industry, which means that Microsoft's market position is always at risk. Microsoft's ability to maintain its current

success is dependent upon the Company's ability to develop and introduce new products and enhance existing products to satisfy consumer demand for new computer technologies. This process is challenging because the pace of change continues to accelerate, creating new opportunities for competitors and subjecting business planning to substantial uncertainty. Competitors, working with new technology, may arrive at a technology that creates a new market altogether and renders the Company's product offerings obsolete. "Open source" software, new computing devices, new microprocessor architectures, the Internet, and Web-based computing models are current examples of the rapid pace of change and intensifying competition. If Microsoft does not successfully identify new product opportunities and develop and bring new products to market in a timely and efficient manner, the Company's business growth will suffer and demand for its products will decrease. Competing operating systems, platforms, and products may gain popularity with customers, computer manufacturers, and developers, reducing Microsoft's future revenue.

Future Initiatives

The Company plans to continue significant investments in software research and development including Microsoft .NET, wireless technologies, digital devices, games, television, and small business. Microsoft is also making significant investments in strategic relationships with third parties, and in online products and services such as MSN, CarPoint(TM) online automotive service, and HomeAdvisor(TM) online real estate service, where the Company has the opportunity to establish leadership in new businesses. It is anticipated that these investments in research and development will increase over historical spending levels without corresponding growth in revenue in the near future. Significant revenue from these product opportunities may not be achieved for a number of years, if at all.

PC Growth Rates

The nature of the PC marketplace is changing in ways that may reduce Microsoft's software sales and revenue growth. Recently, manufacturers have sought to reach more consumers by developing and producing lower cost PCs - PCs that come without pre-installed software or contain software with reduced functionality. In addition to the influx of low-cost PCs, a market for handheld computing and communication devices has developed. While these devices are not as powerful or versatile as PCs, they threaten to erode sales growth in the market for PCs with pre-installed software. This may affect Microsoft's revenue growth because manufacturers may choose not to install Microsoft software in these low-cost PCs or consumers may purchase alternative intelligent devices that do not utilize Microsoft software. These lower-priced devices require Microsoft to provide lower-priced software with a subset of the original functionality. As a result, the Company may generate less revenue from the sale of software produced for these devices than from the sale of software for PCs.

Product Ship Schedules

The PC software industry is inherently complex. New products and product enhancements can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products could damage Microsoft's business.

Saturation

Product upgrades, which enable users to upgrade from earlier versions of the Company's products or from competitors' products, have lower prices and margins than new products. Also, penetration of the Company's desktop applications into large organizations is becoming saturated. These factors are likely to depress future desktop applications revenue growth.

Prices

The competitive factors described above may require Microsoft to lower product prices to meet competition, reducing the Company's net income.

Earnings Process

An increasingly higher percentage of the Company's revenue is subject to ratable recognition, which impacts the timing of revenue and earnings recognition. This policy may be required for additional products, depending on specific license terms and conditions. Also, maintenance and new subscription programs such as the application service provider (ASP) model are increasing in popularity.

Employee Compensation

Microsoft employees currently receive salaries, incentive bonuses, other benefits, and stock options. New government regulations, poor stock price performance, or other factors could diminish the value of the option program to current and prospective employees and force the Company into more of a cash compensation model.

International Operations

Microsoft develops and sells products throughout the world. The prices of the Company's products in countries outside of the United States are generally higher than the Company's prices in the United States because of the costs incurred in localizing software for non-U.S. markets. The costs of producing and selling the Company's products in these countries are also higher. Pressure to globalize Microsoft's pricing structure might require that the Company reduce the sales price of its software in other countries, even though the costs of the software continue to be higher than in the United States. Negative changes in software "piracy" trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software; social, political, labor or economic conditions in a specific country or region; difficulties in staffing and managing foreign operations; and potential adverse foreign tax consequences; among other factors, could also have an impact on the Company's business and results of operations outside of the United States.

Market Risk

The Company is exposed to foreign currency, interest rate, and securities price risks. A portion of these risks is hedged, but fluctuations could impact the Company's results of operations and financial position. The Company hedges the exposure of accounts receivable and a portion of anticipated revenue to foreign currency fluctuations, primarily with option contracts. The Company monitors its foreign currency exposures daily to maximize the overall effectiveness of its foreign currency hedge positions. Principal currencies hedged include the Euro, Japanese yen, British pound, and Canadian dollar. Fixed income securities are subject to interest rate risk. The portfolio is diversified and consists primarily of investment grade securities to minimize credit risk. The Company routinely uses options to hedge its exposure to interest rate risk in the event of a catastrophic increase in interest rates. Many securities held in the Company's equity and other investments portfolio are subject to price risk. The Company uses options to hedge its price risk on certain highly volatile equity securities.

The Company uses a value-at-risk (VAR) model to estimate and quantify its market risks. The VAR model is not intended to represent actual losses in fair value, but is used as a risk estimation and management tool. Assumptions applied to the VAR model at June 30, 1999 and 2000 include the following: normal market conditions; Monte Carlo modeling with 10,000 simulated market price paths; a 97.5% confidence interval; and a 20-day estimated loss in fair value for each market risk category. Accordingly, 97.5% of the time the estimated 20-day loss in fair value would be nominal for foreign currency denominated investments and accounts receivable at June 30, 1999 and 2000, and would not exceed \$95 million and \$211 million at June 30, 1999 and 2000 for interest-sensitive investments or \$1.38 billion or \$1.02 billion at June 30, 1999 and 2000 for equity securities.

Intellectual Property Rights

Microsoft diligently defends its intellectual property rights, but unlicensed copying of software represents a loss of revenue to the Company. While this adversely affects U.S. revenue, revenue loss is even more significant outside of the United States, particularly in countries where laws are less protective of intellectual property rights. Throughout the world, Microsoft actively educates consumers on the benefits of licensing genuine products and educates lawmakers on the advantages of a business climate where intellectual property rights are protected. However, continued efforts may not affect revenue positively.

Litigation

Litigation regarding intellectual property rights, patents, and copyrights occurs in the PC software industry. In addition, there are government regulation and investigation risks along with other general corporate legal risks. The Company is a defendant in a lawsuit filed by the Antitrust Division of the U.S. Department of Justice and a group of nineteen state Attorneys General alleging violations of the Sherman Act and various state antitrust laws. After the trial, the District Court entered Findings of Fact and Conclusions of Law stating that Microsoft had violated sections of the Sherman Act and various state antitrust laws. A Judgment was entered on June 7, 2000 ordering, among other things, the breakup of Microsoft into two companies. On June 20, 2000, the District Court entered an order staying the Judgment of June 7, 2000 in its entirety until the appeal therefrom is heard and decided, unless the stay is earlier vacated by an appellate court. Although Microsoft believes it will obtain ultimate relief from the Judgment, the Company cannot predict with certainty when or the extent to which such relief will be obtained. The failure to obtain relief from certain provisions of the Judgment through the appeal would likely have a material adverse effect on the Company. A large number of antitrust class action lawsuits have been initiated against Microsoft. These cases allege that Microsoft has competed unfairly and unlawfully monopolized alleged markets for operating systems and certain software applications and seek to recover alleged overcharges that the complaints contend Microsoft charged for these products. Although Microsoft believes the claims are without merit and is vigorously defending the cases, the Company cannot predict with certainty the outcome of these lawsuits.

Future Growth Rate

The revenue growth rate in 2001 may not approach the level attained in prior years. As discussed previously, certain operating expenses are expected to increase in 2001. Because of the fixed nature of a significant portion of operating expenses, coupled with the possibility of slower revenue growth, operating margins in 2001 may decrease from those in 2000.

Microsoft Corporation

Financial Statements

Income Statements for the three years ended June 30, 2000

Cash Flows Statements for the three years ended June 30, 2000

Balance Sheets as of June 30, 1999 and 2000

Stockholders' Equity Statements for the three years ended June 30, 2000

Notes to Financial Statements

Independent Auditors' Report

Income Statements
(In millions, except earnings per share)

Year Ended June 30	1998	1999	2000
Revenue	\$15,262	\$19,747	\$22,956
Operating expenses:			
Cost of revenue	2,460	2,814	3,002
Research and development	2,601	2,970	3,775
Acquired in-process technology	296	--	--
Sales and marketing	2,828	3,231	4,141
General and administrative	433	689	1,009
Other expenses	230	115	92
Total operating expenses	8,848	9,819	12,019
Operating income	6,414	9,928	10,937
Investment income	703	1,803	3,182
Gain on sales	--	160	156
Income before income taxes	7,117	11,891	14,275
Provision for income taxes	2,627	4,106	4,854
Net income	\$ 4,490	\$ 7,785	\$ 9,421
Earnings per share:			
Basic	\$ 0.92	\$ 1.54	\$ 1.81
Diluted	\$ 0.84	\$ 1.42	\$ 1.70

See accompanying notes.

Cash Flows Statements
(In millions)

Year Ended June 30	1998	1999	2000
Operations			
Net income	\$ 4,490	\$ 7,785	\$ 9,421
Depreciation, amortization, and other noncash items	1,024	926	748
Write-off of acquired in-process technology	296	--	--
Gain on sales	--	(160)	(156)
Stock option income tax benefits	1,553	3,107	5,535
Unearned revenue	3,268	5,877	6,177
Recognition of unearned revenue from prior periods	(1,798)	(4,526)	(5,600)
Other current liabilities	208	1,050	(445)
Accounts receivable	(520)	(687)	(944)
Other current assets	(88)	(235)	(775)
Net cash from operations	8,433	13,137	13,961
Financing			
Common stock issued	959	1,350	2,245
Common stock repurchased	(2,468)	(2,950)	(4,896)
Put warrant proceeds	538	766	472
Preferred stock dividends	(28)	(28)	(13)
Net cash used for financing	(999)	(862)	(2,192)
Investing			
Additions to property and equipment	(656)	(583)	(879)
Cash portion of WebTV purchase price	(190)	--	--
Cash proceeds from sale of Softimage, Inc.	--	79	--
Purchases of investments	(19,114)	(36,441)	(43,158)
Maturities of investments	1,890	4,674	4,025
Sales of investments	10,798	21,080	28,085
Net cash used for investing	(7,272)	(11,191)	(11,927)
Net change in cash and equivalents	162	1,084	(158)
Effect of exchange rates on cash and equivalents	(29)	52	29
Cash and equivalents, beginning of year	3,706	3,839	4,975
Cash and equivalents, end of year	\$ 3,839	\$ 4,975	\$ 4,846

See accompanying notes.

Balance Sheets
(In millions)

June 30	1999	2000
Assets		
Current assets:		
Cash and equivalents	\$ 4,975	\$ 4,846
Short-term investments	12,261	18,952
Total cash and short-term investments	17,236	23,798
Accounts receivable	2,245	3,250
Deferred income taxes	1,469	1,708
Other	752	1,552
Total current assets	21,702	30,308
Property and equipment, net	1,611	1,903
Equity and other investments	14,372	17,726
Other assets	940	2,213
Total assets	\$38,625	\$52,150
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 874	\$ 1,083
Accrued compensation	396	557
Income taxes	1,691	585
Unearned revenue	4,239	4,816
Other	1,602	2,714
Total current liabilities	8,802	9,755
Deferred income taxes	1,385	1,027
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock--shares authorized 100; shares issued and outstanding 13 and 0	980	--
Common stock and paid-in capital--shares authorized 12,000; shares issued and outstanding 5,109 and 5,283	13,844	23,195
Retained earnings, including other comprehensive income of \$1,787 and \$1,527	13,614	18,173
Total stockholders' equity	28,438	41,368
Total liabilities and stockholders' equity	\$38,625	\$52,150

See accompanying notes.

Stockholders' Equity Statements
(In millions)

Year Ended June 30	1998	1999	2000
Convertible preferred stock			
Balance, beginning of year	\$ 980	\$ 980	\$ 980
Conversion of preferred to common stock	--	--	(980)
Balance, end of year	980	980	--
Common stock and paid-in capital			
Balance, beginning of year	4,509	8,025	13,844
Common stock issued	1,262	2,338	3,554
Common stock repurchased	(165)	(64)	(210)
Structured repurchases price differential	328	(328)	--
Proceeds from sale of put warrants	538	766	472
Stock option income tax benefits	1,553	3,107	5,535
Balance, end of year	8,025	13,844	23,195
Retained earnings			
Balance, beginning of year	5,288	7,622	13,614
Net income	4,490	7,785	9,421
Other comprehensive income:			
Net unrealized investment gains/(losses)	627	1,052	(283)
Translation adjustments and other	(124)	69	23
Comprehensive income	4,993	8,906	9,161
Preferred stock dividends	(28)	(28)	(13)
Immaterial pooling of interests	--	--	97
Common stock repurchased	(2,631)	(2,886)	(4,686)
Balance, end of year	7,622	13,614	18,173
Total stockholders' equity	\$16,627	\$28,438	\$41,368

See accompanying notes.

Accounting Policies

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States.

Principles of Consolidation

The financial statements include the accounts of Microsoft and its subsidiaries. Significant intercompany transactions and balances have been eliminated. Investments in unconsolidated joint ventures are accounted for using the equity method; the Company's share of joint ventures' activities is reflected in other expenses.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples include provisions for returns, concessions and bad debts, and the length of product life cycles and buildings' lives. Actual results may differ from these estimates.

Foreign Currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Revenue and expenses are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in other expenses.

Revenue Recognition

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, With Respect to Certain Transactions. Revenue from products licensed to original equipment manufacturers is recorded when OEMs ship licensed products while revenue from certain license programs is recorded when the software has been delivered and the customer is invoiced. Revenue from packaged product sales to and through distributors and resellers is recorded when related products are shipped. Maintenance and subscription revenue is recognized ratably over the contract period. Revenue attributable to undelivered elements, including technical support and Internet browser technologies, is based on the average sales price of those elements and is recognized ratably on a straight-line basis over the product's life cycle. When the revenue recognition criteria required for distributor and reseller arrangements are not met, revenue is recognized as payments are received. Costs related to insignificant obligations, which include telephone support for certain products, are accrued. Provisions are recorded for returns, concessions and bad debts.

Cost of Revenue

Cost of revenue includes direct costs to produce and distribute product and direct costs to provide online services, consulting, product support, and training and certification of system integrators.

Research and Development

Research and development costs are expensed as incurred. Statement of Financial Accounting Standards (SFAS) 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, does not materially affect the Company.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$732 million in 1998, \$804 million in 1999, and \$1.1 billion in 2000.

Income Taxes

Income tax expense includes U.S. and international income taxes, plus the provision for U.S. taxes on undistributed earnings of international subsidiaries. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of this difference is reported as deferred income taxes.

Financial Instruments

The Company considers all liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments generally mature between three months and six years from the purchase date. All cash and short-term investments are classified as available for sale and are recorded at market

using the specific identification method; unrealized gains and losses are reflected in other comprehensive income. Cost approximates market for all classifications of cash and short-term investments; realized and unrealized gains and losses were not material.

Equity and other investments include debt and equity instruments. Debt securities and publicly traded equity securities are classified as available for sale and are recorded at market using the specific identification method. Unrealized gains and losses are reflected in other comprehensive income. All other investments, excluding joint venture arrangements, are recorded at cost.

Derivative financial instruments are used to hedge certain investments, international revenue, accounts receivable, and interest rate risks, and are, therefore, held primarily for purposes other than trading. These instruments may involve elements of credit and market risk in excess of the amounts recognized in the financial statements. The Company monitors its positions and the credit quality of counter parties, consisting primarily of major financial institutions, and does not anticipate nonperformance by any counter-party.

SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, is effective for the Company as of July 1, 2000. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Adoption of these new accounting standards will result in cumulative after-tax reductions in net income of approximately \$350 million and other comprehensive income of approximately \$50 million in the first quarter of fiscal 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term, ranging from one to 15 years. As required by SOP 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, Microsoft began capitalizing certain computer software developed or obtained for internal use in fiscal 2000. Capitalized computer software is depreciated using the straight-line method over the shorter of the estimated life of the software or three years.

Reclassifications

As required by Emerging Issues Task Force (EITF) Issue 00-15, Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option, stock option income tax benefits are classified as cash from operations in the cash flows statement. Prior period cash flows statements have been restated to conform with this presentation. Certain other reclassifications have been made for consistent presentation.

Unearned Revenue

A portion of Microsoft's revenue is earned ratably over the product life cycle or, in the case of subscriptions, over the period of the license agreement.

End users receive certain elements of the Company's products over a period of time. These elements include items such as browser technologies and technical support. Consequently, Microsoft's earned revenue reflects the recognition of the fair value of these elements over the product's life cycle. Upon adoption of SOP 98-9 during the fourth quarter of fiscal 1999, the Company was required to change the methodology of attributing the fair value to undelivered elements. The percentages of undelivered elements in relation to the total arrangement decreased, reducing the amount of Windows and Office revenue treated as unearned, and increasing the amount of revenue recognized upon shipment. The percentage of revenue recognized ratably decreased from a range of 20% to 35% to a range of approximately 15% to 25% of Windows desktop operating systems. For desktop applications, the percentage decreased from approximately 20% to a range of approximately 10% to 20%. The ranges depend on the terms and conditions of the license and prices of the elements. In addition, in the fourth quarter of fiscal 1999, the Company extended the life cycle of Windows from two to three years based upon management's review of product shipment cycles. Product life cycles are currently estimated at 18 months for desktop applications. The Company also sells subscriptions to certain products via maintenance and certain organizational license agreements. At June 30, 1999 and 2000, Windows Platforms products unearned revenue was \$2.17 billion and \$2.61 billion and unearned revenue associated with Productivity Applications and Developer products totaled \$1.96 billion and \$1.99 billion. Unearned revenue for other miscellaneous programs totaled \$116 million and \$210 million at June 30, 1999 and 2000.

Financial Risks

The Company's cash and short-term investment portfolio is diversified and consists primarily of investment grade securities. Investments are held with high-quality financial institutions, government and government agencies, and corporations, thereby reducing credit risk concentrations. Interest rate fluctuations impact the carrying value of the portfolio. The Company routinely hedges the portfolio with options in the event of a catastrophic increase in interest rates. The notional amount of the options outstanding was \$4.0 billion and \$3.6 billion at June 30, 1999 and 2000. The fair value and premiums paid for the options were not material. Much of the Company's equity security portfolio is highly volatile, so certain positions are hedged.

Finished goods sales to international customers in Europe, Japan, Canada, and Australia are primarily billed in local currencies. Payment cycles are relatively short, generally less than 90 days. Certain international manufacturing and operational costs are incurred in local currencies. Local currency cash balances in excess of short-term operating needs are generally converted into U.S. dollar cash and short-term investments on receipt. Although foreign exchange rate fluctuations generally do not create a risk of material balance sheet gains or losses, the Company hedges a portion of accounts receivable balances denominated in local currencies, primarily with purchased options. The notional amount of options outstanding was \$662 million and \$1.46 billion at June 30, 1999 and 2000. The fair value and premiums paid for the options were not material.

Foreign exchange rates affect the translated results of operations of the Company's foreign subsidiaries. The Company hedges a portion of planned international revenue with purchased options. The notional amount of the options outstanding was \$2.25 billion and \$2.08 billion at June 30, 1999 and 2000. The fair value and premiums paid for the options were not material.

At June 30, 1999 and 2000, approximately 50% and 42% of accounts receivable represented amounts due from 10 customers. A single customer accounted for approximately 8%, 11%, and 9% of revenue in 1998, 1999, and 2000.

Microsoft lends certain fixed income and equity securities to enhance investment income. Collateral and/or security interest is determined based upon the underlying security and the credit worthiness of the borrower.

Cash and Short-Term Investments

June 30	1999	2000
Cash and equivalents:		
Cash	\$ 635	\$ 849
Commercial paper	3,805	1,986
Certificates of deposit	522	1,017
U.S. government and agency securities	--	729
Corporate notes and bonds	--	265
Money market preferreds	13	--
Cash and equivalents	4,975	4,846
Short-term investments:		
Commercial paper	1,026	612
U.S. government and agency securities	3,592	7,104
Corporate notes and bonds	6,996	9,473
Municipal securities	247	1,113
Certificates of deposit	400	650
Short-term investments	12,261	18,952
Cash and short-term investments	\$17,236	\$23,798

Property and Equipment

June 30	1999	2000
Land	\$ 158	\$ 176
Buildings	1,347	1,387
Computer equipment and software	1,433	1,909
Other	578	842
Property and equipment--at cost	3,516	4,314
Accumulated depreciation	(1,905)	(2,411)
Property and equipment--net	\$ 1,611	\$ 1,903

During 1998, 1999, and 2000, depreciation expense, of which the majority related to computer equipment, was \$528 million, \$483 million, and \$668 million; disposals were not material.

Equity and Other Investments

June 30, 1999	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Debt securities recorded at market, maturing:				
Within one year	\$ 682	\$ 8	\$ --	\$ 690
Between 10 and 15 years	533	30	(33)	530
Beyond 15 years	4,731	347	--	5,078
Debt securities recorded at market	5,946	385	(33)	6,298
Common stock and warrants	3,029	3,598	(799)	5,828
Preferred stock	2,179	--	--	2,179
Other investments	67	--	--	67
Equity and other investments	\$11,221	\$3,983	\$(832)	\$14,372

June 30, 2000	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Debt securities recorded at market, maturing:				
Within one year	\$ 498	\$ 27	\$ --	\$ 525
Between 2 and 10 years	388	11	(3)	396
Between 10 and 15 years	775	14	(93)	696
Beyond 15 years	4,745	--	(933)	3,812
Debt securities recorded at market	6,406	52	(1,029)	5,429
Common stock and warrants	5,815	5,655	(1,697)	9,773
Preferred stock	2,319	--	--	2,319
Other investments	205	--	--	205
Equity and other investments	\$14,745	\$5,707	\$(2,726)	\$17,726

Debt securities include corporate and government notes and bonds and derivative securities. Debt securities maturing beyond 15 years are composed entirely of AT&T 5% convertible preferred debt with a contractual maturity of 30 years. The debt is convertible into AT&T common stock on or after December 1, 2000, or may be redeemed by AT&T upon satisfaction of certain conditions on or after June 1, 2002. Equity securities that are restricted for more than one year or not publicly traded are recorded at cost. At June 30, 1999 and 2000, the estimated fair value of these investments in excess of their recorded basis was \$2.3 billion and \$2.7 billion, based on publicly available market information or other estimates determined by management. The Company hedges the risk of significant market declines on certain highly volatile equity securities with options. The options are recorded at market, consistent with the underlying equity securities. At June 30, 1999 and 2000, the notional amount of the options outstanding was \$2.1 billion and \$4.0 billion; the fair value represents obligations of \$1.0 billion and \$1.7 billion; and premiums paid for the options were not material. Realized gains and losses of equity and other investments in 1998 were not material; realized gains were \$623 million and \$1.7 billion in 1999 and 2000 and losses were not material in 1999 and 2000.

Income Taxes

The provision for income taxes consisted of:

Year Ended June 30	1998	1999	2000
Current taxes:			
U.S. and state	\$2,518	\$4,027	\$4,744
International	526	281	535
Current taxes	3,044	4,308	5,279
Deferred taxes	(417)	(202)	(425)
Provision for income taxes	\$2,627	\$4,106	\$4,854

U.S. and international components of income before income taxes were:

Year Ended June 30	1998	1999	2000
U.S.	\$5,072	\$10,649	\$11,860
International	2,045	1,242	2,415
Income before income taxes	\$7,117	\$11,891	\$14,275

The effective income tax rate increased to 36.9% in 1998 due to the nondeductible write-off of WebTV in-process technologies. In 1999, the effective tax rate was 35.0%, excluding the impact of the gain on the sale of Softimage, Inc. In 2000, the effective tax rate was 34.0%, and included the effect of a 2.5% reduction from the U.S. statutory rate for tax credits and a 1.5% increase for other items. The components of the differences between the U.S. statutory tax rate and the Company's effective tax rate in 1998 and 1999 were not significant.

Deferred income taxes as of June 30 were:

	1999	2000
Deferred income tax assets:		
Revenue items	\$ 1,145	\$ 1,320
Expense items	648	2,122
Deferred income tax assets	1,793	3,442
Deferred income tax liabilities:		
Unrealized gain on investments	(1,046)	(874)
International earnings	(647)	(1,766)
Other	(16)	(121)
Deferred income tax liabilities	\$(1,709)	\$(2,761)

The Internal Revenue Service (IRS) has assessed taxes for 1990 and 1991, which the Company is contesting in U.S. Tax Court. Income taxes, except for taxes related to the 1990 and 1991 assessments, have been settled with the IRS for all years through 1994. The IRS is examining the Company's U.S. income tax returns for 1995 and 1996. Management believes any related adjustments that might be required will not be material to the financial statements. Income taxes paid were \$1.1 billion in 1998, \$874 million in 1999, and \$800 million in 2000.

Convertible Preferred Stock

During 1996, Microsoft issued 12.5 million shares of 2.75% convertible exchangeable principal-protected preferred stock. Net proceeds of \$980 million were used to repurchase common shares. The Company's convertible preferred stock matured on December 15, 1999. Each preferred share was converted into 1.1273 common shares.

Common Stock

Shares of common stock outstanding were as follows:

Year Ended June 30	1998	1999	2000
Balance, beginning of year	4,816	4,940	5,109
Issued	202	213	229
Repurchased	(78)	(44)	(55)
Balanced, end of year	4,940	5,109	5,283

Repurchase Program

In January 2000, the Company terminated its stock buyback program. Prior to this termination, the Company periodically repurchased its common shares in the open market to provide shares for issuance to employees under stock option and stock purchase plans. During 1998, the Company executed two forward settlement structured repurchase agreements with an independent third party totaling 42 million shares of stock and paid cash for a portion of the purchase price. In 1999, the Company settled the agreements by returning 28 million shares of stock, based upon the stock price on the date of settlement. The timing and method of settlement were at the discretion of the Company. The differential between the cash paid and the price of Microsoft common stock on the date of the agreement was originally reflected in common stock and paid-in capital.

Put Warrants

Prior to the termination of the stock buyback program, Microsoft enhanced the program by selling put warrants to independent third parties. These put warrants entitle the holders to sell shares of Microsoft common stock to the Company on certain dates at specified prices. On June 30, 2000, warrants to put 157 million shares were outstanding with strike prices ranging from \$70 to \$78 per share. The put warrants expire between September 2000 and December 2002. The outstanding put warrants permit a net-share settlement at the Company's option and do not result in a put warrant liability on the balance sheet.

Other Comprehensive Income

The changes in the components of other comprehensive income are as follows:

Year Ended June 30	1998	1999	2000
Net unrealized investment gains/(losses):			
Unrealized holding gains, net of tax effect of \$355 in 1998, \$772 in 1999, and \$248 in 2000	\$ 660	\$1,432	\$ 531
Reclassification adjustment for gains included in net income, net of tax effect of \$(18) in 1998, \$(205) in 1999, and \$(420) in 2000	(33)	(380)	(814)
Net unrealized investment gains/(losses)	627	1,052	(283)
Translation adjustments and other	(124)	69	23
Other comprehensive income/(loss)	\$ 503	\$1,121	\$(260)

Employee Stock and Savings Plans

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or the last day of each six-month period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period. During 1998, 1999, and 2000, employees purchased 4.4 million, 2.7 million, and 2.5 million shares at average prices of \$27.21, \$52.59, and \$72.38 per share. At June 30, 2000, 68.4 million shares were reserved for future issuance.

Savings Plan

The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 15% of their pretax salary, but not more than statutory limits. The Company contributes fifty cents for each dollar a participant contributes, with a maximum contribution of 3% of a

participant's earnings. Matching contributions were \$39 million, \$49 million, and \$65 million in 1998, 1999, and 2000.

Stock Option Plans

The Company has stock option plans for directors, officers, and employees, which provide for nonqualified and incentive stock options. Options granted prior to 1995 generally vest over four and one-half years and expire 10 years from the date of grant. Options granted during and after 1995 generally vest over four and one-half years and expire seven years from the date of grant, while certain options vest either over four and one-half years or over seven and one-half years and expire after 10 years. At June 30, 2000, options for 341 million shares were vested and 734 million shares were available for future grants under the plans.

Stock options outstanding were as follows:

	Shares	Price per Share		Weighted Average
		Range		
Balance, June 30, 1997	956	\$ 0.56 - \$	29.80	\$ 7.86
Granted	138	16.56 -	43.63	31.28
Exercised	(176)	0.56 -	31.24	4.64
Canceled	(25)	4.25 -	41.94	14.69
Balance, June 30, 1998	893	0.56 -	43.63	11.94
Granted	78	45.59 -	83.28	54.62
Exercised	(175)	0.56 -	53.63	6.29
Canceled	(30)	4.25 -	74.28	21.06
Balance, June 30, 1999	766	0.56 -	83.28	23.87
Granted	304	65.56 -	119.13	79.87
Exercised	(198)	0.56 -	82.94	9.54
Canceled	(40)	4.63 -	116.56	36.50
Balance, June 30, 2000	832	0.56 -	119.13	41.23

For various price ranges, weighted average characteristics of outstanding stock options at June 30, 2000 were as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Shares	Remaining Life (Years)	Weighted Average Price	Shares	Weighted Average Price
\$0.56-\$5.97	133	2.1	\$ 4.57	127	\$ 4.53
5.98-13.62	104	3.0	10.89	84	10.83
13.63-29.80	135	3.7	14.99	77	14.83
29.81-43.62	96	4.5	32.08	39	31.98
43.63-83.28	198	7.3	63.19	14	54.64
83.29-119.13	166	8.6	89.91	--	--

The Company follows Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, to account for stock option and employee stock purchase plans. An alternative method of accounting for stock options is SFAS 123, Accounting for Stock-Based Compensation. Under SFAS 123, employee stock options are valued at grant date using the Black-Scholes valuation model, and this compensation cost is recognized ratably over the vesting period. Had compensation cost for the Company's stock option and employee stock purchase plans been determined as prescribed by SFAS 123, pro forma income statements for 1998, 1999, and 2000 would have been as follows:

Year Ended June 30	1998		1999		2000	
	Reported	Pro Forma	Reported	Pro Forma	Reported	Pro Forma
Revenue	\$15,262	\$15,262	\$19,747	\$19,747	\$22,956	\$22,956
Operating expenses:						
Cost of revenue	2,460	2,603	2,814	3,013	3,002	3,277
Research and development	2,601	2,963	2,970	3,479	3,775	4,817
Acquired in-process technology	296	296	--	--	--	--
Sales and marketing	2,828	2,977	3,231	3,438	4,141	4,483
General and administrative	433	508	689	815	1,009	1,243
Other expenses	230	230	115	115	92	92
Total operating expenses	8,848	9,577	9,819	10,860	12,019	13,912
Operating income	6,414	5,685	9,928	8,887	10,937	9,044
Investment income	703	703	1,803	1,803	3,182	3,182
Gain on sales	--	--	160	160	156	156
Income before income taxes	7,117	6,388	11,891	10,850	14,275	12,382
Provision for income taxes	2,627	2,369	4,106	3,741	4,854	4,210
Net income	\$ 4,490	\$ 4,019	\$ 7,785	\$ 7,109	\$ 9,421	\$ 8,172
Diluted earnings per share	\$ 0.84	\$ 0.75	\$ 1.42	\$ 1.30	\$ 1.70	\$ 1.48

The weighted average Black-Scholes value of options granted under the stock option plans during 1998, 1999, and 2000 was \$11.81, \$20.90, and \$36.67. Value was estimated using a weighted average expected life of 5.3 years in 1998, 5.0 years in 1999, and 6.2 years in 2000, no dividends, volatility of .32 in 1998 and 1999 and .33 in 2000, and risk-free interest rates of 5.7%, 4.9%, and 6.2% in 1998, 1999, and 2000.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding preferred shares using the "if-converted" method, assumed net-share settlement of common stock structured repurchases, and outstanding stock options using the "treasury stock" method.

The components of basic and diluted earnings per share were as follows:

Year Ended June 30	1998	1999	2000
Net income	\$4,490	\$7,785	\$9,421
Preferred stock dividends	28	28	13
Net income available for common shareholders	\$4,462	\$7,757	\$9,408
Weighted average outstanding shares of common stock	4,864	5,028	5,189
Dilutive effect of:			
Common stock under structured repurchases	6	13	--
Put warrants	--	--	2
Preferred stock	34	16	7
Employee stock options	458	425	338
Common stock and common stock equivalents	5,362	5,482	5,536
Earnings per share:			
Basic	\$ 0.92	\$ 1.54	\$ 1.81
Diluted	\$ 0.84	\$ 1.42	\$ 1.70

Operational Transactions

In August 1997, Microsoft acquired WebTV Networks, Inc., an online service that enables consumers to experience the Internet through their televisions via set-top terminals based on proprietary technologies. A director of the Company owned 10% of WebTV. Microsoft paid \$425 million in stock and cash for WebTV. The Company recorded an in-process technologies write-off of \$296 million in the first quarter of fiscal 1998.

In August 1998, the Company sold a wholly-owned subsidiary, Softimage, Inc. to Avid Technology, Inc. and recorded a pretax gain of \$160 million. As part of a transitional service agreement, Microsoft agreed to make certain development tools and management systems available to Avid for use in the Softimage business.

In November 1998, Microsoft acquired LinkExchange, Inc., a leading provider of online marketing services to Web site owners and small and medium-sized businesses. Microsoft paid \$265 million in stock.

In September 1999, the Company sold the entertainment city guide portion of MSN Sidewalk to Ticketmaster Online-CitySearch, Inc. (TMCS) for a combination of TMCS stock and warrants with a value of \$223 million. The transaction also included a distribution agreement. Microsoft recognized a gain of \$156 million on the sale and will recognize revenue amounts related to the distribution arrangement over the term of the agreement.

In November 1999, Expedia, Inc. completed an initial public offering of its common stock. Expedia, which is majority-owned by Microsoft, is a leading provider of branded online travel services for leisure and small business travelers. Expedia's financial results and financial condition are consolidated with the operations of Microsoft.

In January 2000, the Company merged with Visio Corporation in a transaction that was accounted for as a pooling of interests. Microsoft issued 14 million shares in the exchange for the outstanding stock of Visio. Visio's assets and liabilities, which were nominal, are included with those of Microsoft as of the merger. Operating results for Visio from periods prior to the merger were not material to the combined results of the two companies. Accordingly, the financial statements for such periods have not been restated.

During fiscal 1999 and 2000, Microsoft also acquired several other entities primarily providing online technologies and services. The Company did not record significant in-process technology write-offs in connection with these transactions.

Commitments

The Company has operating leases for most U.S. and international sales and support offices and certain equipment. Rental expense for operating leases was \$95 million, \$135 million, and \$201 million in 1998, 1999, and 2000. Future minimum rental commitments under noncancelable leases, in millions of dollars, are: 2001, \$178; 2002, \$172; 2003, \$160; 2004, \$151; 2005, \$139; and thereafter, \$437.

Microsoft has committed \$299 million for constructing new buildings and \$200 million for the manufacturing of products. During 1996, Microsoft and National Broadcasting Company (NBC) established two MSNBC joint ventures: a 24-hour cable news and information channel and an interactive online news service. Microsoft agreed to pay \$220 million over a five-year period for its interest in the cable venture, to pay one-half of operational funding of both joint ventures for a multiyear period, and to guarantee a portion of MSNBC debt.

Contingencies

On October 7, 1997, Sun Microsystems, Inc. ("Sun") brought suit against Microsoft in the U.S. District Court for the Northern District of California. Sun's complaint alleges several claims against Microsoft, all related to the parties' relationship under a March 11, 1996 Technology License and Distribution Agreement (Agreement) concerning certain Java programming language technology.

On March 24, 1998, the Court entered an order enjoining Microsoft from using the Java Compatibility logo on Internet Explorer 4.0 and the Microsoft Software Developers Kit (SDK) for Java 2.0. Microsoft has taken steps to fully comply with the order.

On November 17, 1998, the Court entered an order granting Sun's request for a preliminary injunction, holding that Sun had established a likelihood of success on its copyright infringement claims, because Microsoft's use of Sun's technology in its products was beyond the scope of the parties' license agreement. The Court ordered Microsoft to make certain changes in its products that include Sun's Java technology and to make certain changes in its Java software development tools. The Court also enjoined Microsoft from entering into any licensing agreements that were conditioned on exclusive use of Microsoft's Java Virtual Machine. Microsoft appealed that ruling to the 9th Circuit Court of Appeals on December 16, 1998.

On August 23, 1999 the 9th Circuit Court of Appeals vacated the November 1998 preliminary injunction and remanded the case to the District Court for further proceedings. Sun immediately filed two motions to reinstate and expand the scope of the earlier injunction on the basis of copyright infringement and unfair competition. On January 25, 2000, the Court issued rulings on the two motions, denying Sun's motion to reinstate the preliminary injunction on the basis of copyright infringement and granting, in part, Sun's motion to reinstate the preliminary injunction based on unfair competition. Microsoft is in compliance with the terms of the partially reinstated preliminary injunction and will not need to undertake any further action to comply with the terms of the injunction. No other hearing or trial dates have been set.

The parties have filed multiple summary judgment motions on the interpretation of the Agreement and on Sun's copyright and trademark infringement claims. On February 25, 2000, the Court entered an order denying both parties' motions for summary judgment as to whether the Agreement authorizes Microsoft to distribute independently developed Java Technology. On April 5, 2000, the Trial Court entered an order denying Sun's motion for summary judgment regarding the interpretation of Section 2.7(a), which sets forth certain requirements that Sun must meet when they deliver Java Technology to Microsoft. On May 9, 2000, the Court entered an order granting Microsoft's motion to dismiss Sun's copyright infringement claim and on May 25, 2000, the Court issued a tentative order granting Microsoft's motion to dismiss Sun's claim that it is entitled to liquidated damages based on the alleged improper posting of its source code by Microsoft. The Court has indicated its intention to set a hearing on the remaining motions in September 2000.

On May 18, 1998, the Antitrust Division of the U.S. Department of Justice (DOJ) and a group of state Attorneys General filed two antitrust cases against Microsoft in the U.S. District Court for the District of Columbia. The DOJ complaint alleges violations of Sections 1 and 2 of the Sherman Act. The DOJ complaint seeks declaratory relief as to the violations it asserts and preliminary and permanent injunctive relief regarding: the inclusion of Internet browsing software (or other software products) as part of Windows; the terms of agreements regarding non-

Microsoft Internet browsing software (or other software products); taking or threatening "action adverse" in consequence of a person's failure to license or distribute Microsoft Internet browsing software (or other software product) or distributing competing products or cooperating with the government; and restrictions on the screens, boot-up sequence, or functions of Microsoft's operating system products. The state Attorneys General allege largely the same claims and various pendent state claims. The states seek declaratory relief and preliminary and permanent injunctive relief similar to that sought by the DOJ, together with statutory penalties under the state law claims. The foregoing description is qualified in its entirety by reference to the full text of the complaints and other papers on file in those actions, case numbers 98-1232 and 98-1233.

On May 22, 1998, Judge Jackson consolidated the two actions. The judge granted Microsoft's motion for summary judgment as to the states' monopoly leverage claim and permitted the remaining claims to proceed to trial. Trial began on October 19, 1998 and ended with closing arguments on September 21, 1999. On November 5, 1999, Judge Jackson issued his Findings of Fact. On April 3, 2000 the Court entered its Conclusions of Law, determining that Microsoft "tied" Internet Explorer and Windows 95/98 in violation of Section 1 of the Sherman Act, that Microsoft violated Section 2 of the Sherman Act by taking actions to maintain its monopoly in the desktop-PC operating system market, and that Microsoft attempted to monopolize the Internet browser market in violation of Section 2 of the Sherman Act. The Court also held that Microsoft did not violate Section 1 of the Sherman Act by entering into a number of contracts challenged by the government. The Court established a schedule for consideration of the remedy to be imposed in a final judgment. On April 28, 2000, the plaintiffs submitted a joint proposed remedy that included a proposed break-up of Microsoft into two companies, an operating systems company, and a company that would own all of Microsoft's other products and businesses. Microsoft submitted its proposed remedy and its proposal for further remedy proceedings on May 10, 2000. On June 7, 2000, Judge Jackson entered the government's proposed order nearly verbatim as his final judgment in the case. That judgment orders a divestiture that will create two separate companies, an "Operating Systems Business" and an "Applications Business," to be implemented one year following a final decision on appeal. It also provides for a broad range of "conduct" remedies that would have gone into effect in 90 days, absent a stay. On June 13, 2000, Microsoft appealed to the United States Court of Appeals. The Court of Appeals immediately entered an order notifying the parties that the Court would hear all matters related to this appeal en banc. The government then asked Judge Jackson to enter an order certifying the case for direct appeal to the Supreme Court. On June 20, 2000, Judge Jackson certified the case for direct appeal to the Supreme Court and simultaneously granted Microsoft's request to stay the entire remedy pending final appeal. The certification divests the Court of Appeals of jurisdiction over the case until the Supreme Court decides whether or not to accept jurisdiction of the case, which is entirely discretionary. The parties have agreed to a briefing schedule on this issue, according to which Microsoft filed its Jurisdictional Statement on July 26, 2000, the government responded on August 15, 2000, and Microsoft replied on August 22, 2000. If the Supreme Court declines to accept jurisdiction, the appeal will return to the Court of Appeals. If the Supreme Court accepts jurisdiction, a schedule will be established for briefing and oral argument on the merits of our appeal.

In other ongoing investigations, the DOJ and several state Attorneys General have requested information from Microsoft concerning various issues. In addition, the European Commission has instituted proceedings in which it alleges that Microsoft has failed to disclose information that Sun claims it needs to interoperate fully with Windows 2000 clients and has engaged in discriminatory licensing of such technology. The remedies sought, though not fully defined, include mandatory disclosure of Microsoft intellectual property concerning Windows operating systems and imposition of fines. Microsoft denies the Commission's allegations and intends to contest the proceedings vigorously.

A large number of antitrust class action lawsuits have been initiated against Microsoft. These cases allege that Microsoft has competed unfairly and unlawfully monopolized alleged markets for operating systems and certain software applications and seek to recover alleged overcharges that the complaints contend Microsoft charged for these products. Microsoft believes the claims are without merit and is vigorously defending the cases.

The Securities and Exchange Commission is conducting a non-public investigation into the Company's accounting reserve practices. Microsoft is also subject to various legal proceedings and claims that arise in the ordinary course of business.

Management currently believes that resolving these matters will not have a material adverse impact on the Company's financial position or its results of operations.

Segment Information

Year Ended June 30

	Windows Platforms	Productivity Applications and Developer	Consumer and Other	Reconciling Amounts	Consolidated
1998					
Revenue	\$6,236	\$ 7,458	\$ 1,765	\$ (197)	\$15,262
Operating income	3,661	4,824	(1,050)	(1,021)	6,414
1999					
Revenue	\$8,570	\$ 8,636	\$ 1,854	\$ 687	\$19,747
Operating income	5,476	4,950	(1,241)	743	9,928
2000					
Revenue	\$9,265	\$10,089	\$ 2,718	\$ 884	\$22,956
Operating income	5,813	4,935	(1,455)	1,644	10,937

The Company's organizational structure and fundamental approach to business reflect the needs of its customers. As such, Microsoft has three major segments: Windows Platforms; Productivity Applications and Developer; and Consumer and Other. Windows Platforms includes the Windows Division, which is primarily responsible for developing and marketing Windows NT Workstation, Windows 2000 Professional, Windows 98, Windows 95, Windows NT Server, and Windows 2000 Server. Productivity Applications and Developer includes the Business Productivity Division, which is responsible for developing and marketing desktop applications, server applications, and developer tools. Consumer and Other products and services include primarily learning, entertainment, and PC input device products; WebTV and PC online access; and portal and vertical properties. Assets of the segment groups are not relevant for management of the businesses nor for disclosure.

Segment information is presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. This standard is based on a management approach, which requires segmentation based upon the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods. The Company's financial reporting systems present various data for management to run the business, including internal profit and loss statements (P&Ls) prepared on a basis not consistent with generally accepted accounting principles. Reconciling items include certain elements of unearned revenue, the treatment of certain channel inventory amounts and estimates, and the classification of revenue from product support and consulting. Additionally, the internal P&Ls use accelerated methods of depreciation and amortization. In fiscal 2000, the Company's internal P&Ls included the Black-Scholes value of employee stock option grants, amortized over the remaining months of the fiscal year of the grant, as well as minor changes to the segments' composition due to various internal reorganizations during the year. Fiscal 1999 disclosures have been restated for consistent presentation. It is not practicable to restate fiscal 1998 for these changes.

Revenue attributable to U.S. operations includes shipments to customers in the United States, licensing to OEMs and certain multinational organizations, and exports of finished goods, primarily to Asia, Latin America, and Canada. Revenue from U.S. operations totaled \$10.1 billion, \$13.7 billion, and \$15.7 billion in 1998, 1999, and 2000. Revenue from outside the United States, excluding licensing to OEMs and certain multinational organizations and U.S. exports, totaled \$5.2 billion, \$6.0 billion, and \$7.3 billion in 1998, 1999, and 2000.

Long-lived assets totaled \$1.5 billion and \$1.8 billion in the United States in 1999 and 2000 and \$154 million and \$126 million in other countries in 1999 and 2000.

Independent Auditors' Report

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries as of June 30, 1999 and 2000, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Seattle, Washington

July 18, 2000

Subsidiaries

Microsoft Corporation
 One Microsoft Way
 Redmond, WA 98052-6399
 Microsoft FSC Corporation. (U.S. VIRGIN ISLANDS)
 Microsoft Investments, Inc. (NEVADA)
 Microsoft Ireland Operations Limited (IRELAND)
 Microsoft Licensing, Inc. (NEVADA)
 MSLI, GP (NEVADA)
 Microsoft Operations Pte Ltd. (SINGAPORE)
 Microsoft Regional Sales Corporation (NEVADA-SINGAPORE BRANCH)
 Microsoft Puerto Rico, Inc. (DELAWARE)
 The Microsoft Network L.L.C. (DELAWARE)
 Microsoft Treasury, Inc (NEVADA)
 GraceMac Corporation (NEVADA)
 Microsoft de Argentina S.A.
 Microsoft Pty. Limited (AUSTRALIA)
 Microsoft Gesellschaft m.b.H. (AUSTRIA)
 Microsoft B.V.B.A. (BELGIUM)
 Microsoft Bolivia S.R.L.
 Microsoft Informatica Limitada (BRAZIL)
 Microsoft Bulgaria EOOD
 Microsoft Canada Co.
 Microsoft Chile S.A.
 Microsoft Colombia Inc. (DELAWARE)
 Microsoft de Centroamerica S.A. (COSTA RICA)
 Microsoft Hrvatska d.o.o. (CROATIA)
 Microsoft s.r.o. (CZECH REPUBLIC)
 Microsoft Danmark ApS (DENMARK)
 Microsoft Dominicana, S.A. (DOMINICAN REPUBLIC)
 Microsoft Del Ecuador S.A.
 Microsoft El Salvador S.A. de C.V.
 Microsoft Egypt L.L.C.
 Microsoft Oy (FINLAND)
 Microsoft France S.A.R.L.
 Microsoft G.m.b.H. (GERMANY)
 Microsoft Hellas S.A. (GREECE)
 Microsoft de Guatemala, S.A.
 Microsoft Hong Kong Limited
 Microsoft Hungary Kft.
 Microsoft Corporation (India) Private Limited
 Microsoft India (R&D) Private Limited
 PT. Microsoft Indonesia
 Microsoft Israel Ltd.
 Microsoft SRL (ITALY)
 Microsoft Cote d'Ivoire SARL (IVORY COAST)
 Microsoft Jamaica, Inc.
 Microsoft Company, Limited (JAPAN)
 Microsoft Asia Ltd (NEVADA-JAPAN BRANCH)
 Microsoft Product Development Ltd. (NEVADA-JAPAN BRANCH)
 East Africa Software Limited (KENYA)
 Microsoft CH (KOREA)
 Microsoft Kuwait Representative Office
 SIA Microsoft Latvija
 Microsoft Corporation Lebanon Representative Office
 Microsoft (Malaysia) Sdn. Bhd.
 Microsoft Mexico, S.A. de C.V.
 Microsoft Indian Ocean Islands Limited (MAURITIUS)

Microsoft Maroc S.A.R.L. (MOROCCO)
Microsoft B.V. (THE NETHERLANDS)
Microsoft Manufacturing B.V. (THE NETHERLANDS)
Microsoft International B.V. (THE NETHERLANDS)
Microsoft New Zealand Limited
Microsoft Nigeria Limited
Microsoft Norge AS (NORWAY)
Microsoft Corporation-Pakistan Liaison Office
Microsoft de Panama, S.A.
Microsoft (China) Company Limited (THE PEOPLE'S REPUBLIC OF CHINA)
Microsoft Peru, S.R.L.
Microsoft Philippines, Inc.
Microsoft sp. z.o.o. (POLAND)
MSFT-Software Para Microcomputadores, LDA (PORTUGAL)
Microsoft Caribbean, Inc. (DELAWARE)
Microsoft Romania SRL
Microsoft ZAO (RUSSIA)
Moscow Microsoft Ireland Operations Limited (Representative Office)(RUSSIA)
Microsoft Arabia Limited (SAUDI ARABIA, 60% owned)
Microsoft Singapore Pte Ltd.
Microsoft Slovakia s.r.o.
Microsoft d.o.o., Ljubljana (SLOVENIA)
Microsoft (S.A.) (Proprietary) Limited (SOUTH AFRICA)
Microsoft Iberica S.R.L. (SPAIN)
Microsoft Aktiebolag (SWEDEN)
Microsoft AG (SWITZERLAND)
Microsoft Taiwan Corporation
Microsoft (Thailand) Limited
Microsoft Trinidad & Tobago Limited
Microsoft Tunisie, S.A.R.L. (TUNISIA)
Microsoft Bilgisayar Yazilim Hizmetleri Limited Sirketi (TURKEY)
Microsoft Corporation (UNITED ARAB EMIRATES)
Microsoft Limited (UNITED KINGDOM)
Microsoft Research Limited (UNITED KINGDOM)
Microsoft Uruguay, S.A.
Microsoft Venezuela, S.A.
The Resident Representative Office of MICROSOFT Corporation in Hanoi (VIETNAM)
Microsoft Corporation, Zimbabwe Liaison Office
Microsoft HomeAdvisor, LLC (NEVADA)
WebTV Networks, Inc. (CALIFORNIA)
Expedia, Inc. (WASHINGTON, 75% owned)
Travelscape.com, Inc. (DELAWARE, owned by Expedia, Inc.)
VacationSpot.com, Inc. (DELAWARE, owned by Expedia, Inc.)
CarPoint.com, LLC (DELAWARE, 75% owned)
MSNBC Cable, L.L.C. (DELAWARE, 50% owned)
MSNBC Interactive News, L.L.C. (DELAWARE, 50% owned)
T1-MSN, Inc. (DELAWARE, 50% owned)
Wireless Knowledge L.L.C. (DELAWARE, 50% owned)
Ninems Pty. Limited (AUSTRALIA, 50% owned)
WebTV Networks K.K. (JAPAN, 75% owned)
Mobimagic Co. Ltd. (JAPAN, 50% owned)

Independent Auditors' Consent

Microsoft Corporation:

We consent to the incorporation by reference in Registration Statement Numbers 33-06335, 33-18381, 33-25575, 33-33695, and 33-37623 (Microsoft Corporation 1981 Stock Option Plan), 33-44302, 33-51583, and 333-06298 (Microsoft Corporation 1991 Stock Option Plan), 33-37622 (Microsoft Corporation 1991 Employee Stock Purchase Plan), 33-10732 (Microsoft Corporation Savings Plus Plan), 33-36498 (Microsoft Corporation Stock Option Plan for Non-Employee Directors), 33-45617 (Microsoft Corporation Stock Option Plan for Consultants and Advisors), 333-16665 (Microsoft Corporation 1997 Employee Stock Purchase Plan), 333-61729 (Microsoft Corporation 1998 Special Stock Award Program), 333-75243 (Microsoft Corporation Savings Plus 401(k) Plan), 333-91755 (Microsoft Corporation 1999 Stock Option Plan for Non-Employee Directors) and 33-06298 of Microsoft Corporation on Forms S-8 and 33-29823, 33-34794, 33-36347, 33-46958, 33-49496, 33-56039, 33-57277, 33-57899, 33-58867, 33-62725, 33-63471, 33-64870, 333-00857, 333-01177, 333-02759, 333-05961, 333-8081, 333-12441, 333-17143, 333-18055, 333-18195, 333-23621, 333-31803, 333-37841, 333-41387, 333-43449, 333-45989, 333-52377, 333-61507, 333-65813, 333-69027, 333-75389, 333-79461, 333-89793, 333-94499, 333-38694, 333-40998, and 333-83873 of Microsoft Corporation on Forms S-3, and 333-26411 and 333-90119 of Microsoft Corporation on Form S-4 of our report dated July 18, 2000 appearing in and incorporated by reference in this Annual Report on Form 10-K of Microsoft Corporation for the year ended June 30, 2000.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington

September 27, 2000

This schedule contains summary financial information extracted from the accompanying financial statements and is qualified in its entirety by reference to such financial statements.

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YEAR	JUN-30-2000	JUL-01-1999	JUN-30-2000
			4,846
	18,952		
	3,250		
	0		
	0		
	30,308		4,314
	2,411		
	52,150		
	9,755		0
	0		
		0	
		23,195	
		18,173	
52,150			22,956
	22,956		
			3,002
	3,002		
	9,017		
	0		
	0		
	14,275		
	4,854		
9,421			
	0		
	0		
			0
	9,421		
	1.81		
	1.70		