UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) June 21, 2006

Microsoft Corporation

(Exact Name of Registrant as Specified in Its Charter)

Washington
(State or Other Jurisdiction of Incorporation)

0-14278	**91-1144442**
(Commission File Number)	**(IRS Employer Identification No.)**
One Microsoft Way, Redmond, Washington	**98052-6399**
(Address of Principal Executive Offices)	**(Zip Code)**

(425) 882-8080
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☒ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement

On June 21, 2006 the Compensation Committee of the Board of Directors of Microsoft Corporation (the "Company") approved amendments to the Company's 2001 Stock Plan (the "2001 Plan") and 1991 Stock Option (the "1991 Plan") (collectively the "Plans").

The 2001 Plan was amended to: (i) permit delegation of the Committee's authority as provided in its charter, (ii) clarify plan rules applicable to options granted in substitution for acquired company options, (iii) clarify the provisions of the plan applicable to vesting following termination of employment, (iv) remove the requirement that award agreements be issued for fully vested stock awards, and (v) clarify that plan share limits on awards vesting over a period of less than three years shall not apply to awards that vest due to death, disability or retirement.

The 1991 Plan was amended to allow the Committee to extend the term of an option where either the exercise of the option or the sale of shares acquired is prevented by operation of a Company policy. In such case the term could be extended to the later of December 31 of the calendar year in which the maximum ten (10) year term would otherwise expire or thirty (30) days after the exercise or sale is first permitted under applicable Company policy.

Copies of the Amended and Restated Plans are filed as Exhibits 99.1 and 99.2 to this report.

Item 2.02. Results of Operations and Financial Condition

On July 20, 2006, the Company issued a press release announcing its financial results for the fiscal year ended June 30, 2006. A copy of the press release is attached as Exhibit 99.3 to this report and is furnished except as otherwise indicated below.

On July 20, 2006, Christopher P. Liddell, Chief Financial Officer of the Company, sent an email to employees discussing the financial results for the fiscal year ended June 30, 2006. A copy of the email is attached as Exhibit 99.4 to this report and is furnished except as otherwise indicated below.

Item 7.01. Regulation FD Disclosure

On July 20, 2006, the Company issued the press release referred to under Item 2.02 providing previously non-public information consisting of forward-looking statements relating to the Company's business and results of operations. The press release also contained pre-commencement statements about an issuer tender offer for shares of its Common Stock. A copy of the press release is attached as Exhibit 99.3 to this report and is furnished except as otherwise indicated below.

On July 20, 2006, Christopher P. Liddell, Chief Financial Officer of the Company, sent the email to employees referred to under Item 2.02. The email also contained pre-commencement statements about an issuer tender offer for shares of its Common Stock. A copy of the email is attached as Exhibit 99.4 to this report and is furnished except as otherwise indicated below.

Item 8.01. Other Events

On July 20, 2006, Microsoft Corporation distributed to employees (through a link to the email referred to under Item 2.02) a document entitled Frequently Asked Questions containing questions and answers relating to a tender offer by the Company for shares of the Company's Common Stock. A copy of the frequently asked questions is attached as Exhibit 99.5 to this report.

On July 20, 2006, Microsoft Corporation posted a slide relating to a tender offer by the Company for shares of the Company's Common Stock. A copy of this slide is attached as Exhibit 99.6 to this report.

Item 9.01. Financial Statements and Exhibits

(d) The following items are filed as exhibits to this report:

99.1	Amended and Restated Microsoft Corporation 1991 Stock Option Plan
99.2	Amended and Restated Microsoft Corporation 2001 Stock Plan
99.3	Press release dated July 20, 2006 issued by Microsoft Corporation
99.4	Email from Christopher P. Liddell to employees
99.5	Frequently Asked Questions provided by Microsoft Corporation to Employees
99.6	Slide posted by Microsoft Corporation on its Investor Relations website

In accordance with General Instruction B.2 of Form 8-K, the following shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing:

(a) the information in Exhibit 99.3, except for the first sentence of the fourth paragraph (not including three lines of headlines) (beginning "the Company also announced") and the information under the caption "Tender Offer Details;" and

(b) the information in Exhibit 99.4, except for (i) the second sentence of the third paragraph and (ii) with respect to the portion beginning "Microsoft Reports Fourth Quarter Results", the first sentence of the fourth paragraph (not including three lines of headlines) (beginning "the Company also announced") and the information under the caption "Tender Offer Details."

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MICROSOFT CORPORATION
(Registrant)

Date: July 20, 2006

/s/ Christopher P. Liddell
Christopher P. Liddell
Chief Financial Officer

Exhibit 99.1

MICROSOFT CORPORATION

1991 STOCK OPTION PLAN, AS AMENDED
(as amended and restated as of June 21, 2006)

1. Purpose of the Plan. The purposes of this Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to such individuals, and to promote the success of the Company's business by aligning employee financial interests with long-term shareholder value.

Options granted hereunder may be either Incentive Stock Options or Nonqualified Stock Options, at the discretion of the Board and as reflected in the terms of the written option agreement.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Board" shall mean the Committee, if such Committee has been appointed, or the Board of Directors of the Company, if such Committee has not been appointed.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean the Committee appointed by the Board of Directors in accordance with paragraph (a) of Section 4 of the Plan, if one is appointed; provided, however, if the Board of Directors appoints more than one Committee pursuant to Section 4, then "Committee" shall refer to the appropriate Committee, as indicated by the context of the reference.

(d) "Common Shares" shall mean the common shares of Microsoft Corporation.

(e) "Company" shall mean Microsoft Corporation, a Washington corporation and any successor thereto.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, maternity leave, infant care leave, medical emergency leave, military leave, or any other leave of absence authorized in writing by a Vice President of the Company prior to its commencement.

(g) "Employee" shall mean any person, including officers, employed by the Company or any Parent or Subsidiary of the Company.

(h) "Incentive Stock Option" shall mean any Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(i) "Maximum Annual Employee Grant" shall have the meaning set forth in Section 5(e).

(j) “Non-Employee Director” shall have the same meaning as defined or interpreted for purposes of Rule 16b-3 (including amendments and successor provisions) as promulgated by the Securities and Exchange Commission pursuant to its authority under the Exchange Act (“Rule 16b-3”).

(k) “Nonqualified Stock Option” shall mean an Option not intended to qualify as an Incentive Stock Option.

(l) “Option” shall mean a stock option granted pursuant to the Plan.

(m) “Optioned Shares” shall mean the Common Shares subject to an Option.

(n) “Optionee” shall mean an Employee who receives an Option.

(o) “Outside Director” shall have the same meaning as defined or interpreted for purposes of Section 162(m) of the Code.

(p) “Parent” shall mean a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(q) “Plan” shall mean this 1991 Stock Option Plan, including any amendments thereto.

(r) “Share” shall mean one Common Share, as adjusted in accordance with Section 11 of the Plan.

(s) “Subsidiary” shall mean (i) in the case of an Incentive Stock Option a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code, and (ii) in the case of a Nonqualified Stock Option, in addition to a subsidiary corporation as defined in (i), a limited liability company, partnership or other entity in which the Company controls 50 percent or more of the voting power or equity interests.

3. Shares Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares which may be optioned and sold under the Plan is 4,202,262,379 Common Shares. The Shares may be authorized, but unissued, or reacquired Common Shares.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall become available for future grant or awards under the Microsoft Corporation 2001 Stock Plan (the “2001 Plan”).

4. Administration of the Plan.

(a) Procedure. The Plan shall be administered by the Board of Directors of the Company.

(1) The Board of Directors may appoint one or more Committees each consisting of not less than two members of the Board of Directors to administer the Plan on behalf of the Board of Directors, subject to such terms and conditions as the Board of Directors may prescribe. Once appointed, such Committees shall continue to serve until otherwise directed by the Board of Directors.

(2) Any grants of Options to officers who are subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") shall be made by (i) a Committee of two or more directors, each of whom is a Non-Employee Director and an Outside Director or (ii) as otherwise permitted by both Rule 16b-3, Section 162(m) of the Code and other applicable regulations.

(3) Subject to the foregoing subparagraphs (1) and (2), from time to time the Board of Directors may increase the size of the Committee(s) and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, or fill vacancies however caused.

(b) Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options or Nonqualified Stock Options; (ii) to determine, in accordance with Section 8(b) of the Plan, the fair market value of the Shares; (iii) to determine, in accordance with Section 8(a) of the Plan, the exercise price per share of Options to be granted; (iv) to determine the Employees to whom, and the time or times at which, Options shall be granted and the number of Shares to be represented by each Option; (v) to interpret the Plan and the terms of Options; (vi) to prescribe, amend, and rescind rules and regulations relating to the Plan; (vii) to determine the terms and provisions of each Option granted (which need not be identical) and, with the consent of the holder thereof, modify or amend any Option; (viii) to reduce the exercise price per share of outstanding and unexercised Options; (ix) to accelerate or defer (with the consent of the Optionee) the vesting or exercise date of any Option; (x) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted by the Board; and (xi) to make all other determinations deemed necessary or advisable for the administration of the Plan; *provided that*, no consent of an Optionee is necessary under clauses (vii) or (ix) if the modification, amendment, acceleration, or deferral in the reasonable judgment of the Board confers a benefit on the Optionee, or is made pursuant to an adjustment in accordance with Section 11.

(c) Effect of Board's Decision. All decisions, determinations, and interpretations of the Board shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

5. Eligibility.

(a) Options may be granted only to Employees. For avoidance of doubt, directors are not eligible to participate in the Plan unless they are full-time Employees.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonqualified Stock Option. However, notwithstanding such designations, to the extent that the aggregate fair market value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company) exceeds $100,000, such Options shall be treated as Nonqualified Stock Options.

(c) For purposes of Section 5(b), Options shall be taken into account in the order in which they were granted, and the fair market value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(d) Nothing in the Plan or any Option granted hereunder shall confer upon any Optionee any right with respect to continuation of employment with the Company, nor shall it interfere in any way with the Optionee's right or the Company's right to terminate the employment relationship at any time, with or without cause.

(e) The maximum number of Shares with respect to which an Option or Options may be granted to any Employee in any one taxable year of the Company shall not exceed 16,000,000 shares (the "Maximum Annual Employee Grant").

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. No new Options may be granted under the Plan, provided that Shares subject to the Plan (other than Shares issued in the exercise of Options granted under the Plan) shall be available for grants and awards under the 2001 Plan as provided in Section 3 and awards shall be subject to adjustment as provided in Section 11.

7. Term of Option. The term of each Option shall be no more than ten (10) years from the date of grant, provided that if the exercise of an Option or sale of the Shares received upon exercise of an Option is prevented by Company policy, then the term of the Option may be extended until (i) December 31 of the calendar year in which the ten (10) year term would otherwise expire, or (ii) thirty (30) days after the exercise of the Option or sale of the Shares received upon exercise of the Option first would be permitted by Company policy. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns Shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the term of the Option shall be no more than five (5) years from the date of grant.

8. Exercise Price and Consideration.

(a) The per Share exercise price under each Option shall be such price as is determined by the Board, subject to the following:

(1) In the case of an Incentive Stock Option

(i) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of grant.

(ii) granted to any other Employee, the per Share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

(2) In the case of a Nonqualified Stock Option the per Share exercise price may be less than, equal to, or greater than the fair market value per Share on the date of grant.

(b) The fair market value per Share shall be the closing price per share of the Common Share on the NASDAQ Stock Market ("NASDAQ") on the date of grant. If the Shares cease to be listed on NASDAQ, the Board shall designate an alternative method of determining the fair market value of the Shares.

(c) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board at the time of grant and may consist of cash and/or check. Payment may also be made by delivering a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale proceeds necessary to pay the exercise price. If the Optionee is an officer of the Company within the meaning of Section 16 of the Exchange Act, he may in addition be allowed to pay all or part of the purchase price with Shares. If the Optionee is a participant in the 1998 Microsoft Corporation Stock Option Gain And Bonus Deferral Program, he may in addition be allowed to pay all or part of the purchase price of any deferred Option with Shares. Shares used by officers to pay the exercise price shall be valued at their fair market value on the exercise date.

(d) Prior to issuance of the Shares upon exercise of an Option, the Optionee shall pay any federal, state, and local withholding obligations of the Company, if applicable. If an Optionee is an officer of the Company within the meaning of Section 16 of the Exchange Act, he may elect to pay such withholding tax obligations by having the Company withhold Shares having a value equal to the amount required to be withheld. The value of the Shares to be withheld shall equal the fair market value of the Shares on the day the Option is exercised. The right of an officer to dispose of Shares to the Company in satisfaction of withholding tax obligations shall be deemed to be approved as part of the initial grant of an option, unless thereafter rescinded, and shall otherwise be made in compliance with Rule 16b-3 and other applicable regulations.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board at the time of grant, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(c) of the

Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the share certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such share certificate promptly upon exercise of the Option. In the event that the exercise of an Option is treated in part as the exercise of an Incentive Stock Option and in part as the exercise of a Nonqualified Stock Option pursuant to Section 5(b), the Company shall issue a share certificate evidencing the Shares treated as acquired upon the exercise of an Incentive Stock Option and a separate share certificate evidencing the Shares treated as acquired upon the exercise of a Nonqualified Stock Option, and shall identify each such certificate accordingly in its share transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the share certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as Employee. In the event of termination of an Optionee's Continuous Status as an Employee, such Optionee may exercise stock options to the extent exercisable on the date of termination. Such exercise must occur within three (3) months (or such shorter time as may be specified in the grant), after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement). To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or does not exercise such Option within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of termination of an Optionee's Continuous Status as an Employee as a result of total and permanent disability (i.e., the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of twelve (12) months), the Optionee may exercise the Option, but only to the extent of the right to exercise that would have accrued had the Optionee remained in Continuous Status as an Employee for a period of twelve (12) months after the date on which the Employee ceased working as a result of the total and permanent disability. Such exercise must occur within eighteen (18) months (or such shorter time as is specified in the grant) from the date on which the Employee ceased working as a result of the total and permanent disability (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement). To the extent that the Optionee was not entitled to exercise such Option within the time specified herein, the Option shall terminate.

(d) Death of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of the death of an Optionee:

(i) who is at the time of death an Employee of the Company, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option

Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee twelve (12) months after the date of death; or

(ii) whose Option has not yet expired but whose Continuous Status as an Employee terminated prior to the date of death, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

(e) Notwithstanding subsections (b), (c), and (d) above, the Board shall have the authority to extend the expiration date of any outstanding option in circumstances in which it deems such action to be appropriate (provided that except as provided in Section 7 above no such extension shall extend the term of an option beyond the date on which the option would have expired if no termination of the Employee's Continuous Status as an Employee had occurred).

10. Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee; provided that the Board may permit further transferability, on a general or specific basis, and may impose conditions and limitations on any permitted transferability.

11. Adjustments Upon Changes in Capitalization or Merger. If any change is made to the Shares by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Shares as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities and/or the price per share covered by outstanding Options under the Plan, and (iii) the Maximum Annual Employee Grant. The Board may also make adjustments described in (i)-(iii) of the previous sentence in the event of any distribution of assets to shareholders other than a normal cash dividend. In determining adjustments to be made under this Section 11, the Board may take into account such factors as it deems appropriate, including (i) the restrictions of applicable law, (ii) the potential tax consequences of an adjustment, and (iii) the possibility that some Optionees might receive an adjustment and a distribution or other unintended benefit, and in light of such factors or circumstances may make adjustments that are not uniform or proportionate among outstanding Options, modify vesting dates, defer the delivery of stock certificates or make other equitable adjustments. Any such adjustments to outstanding Options will be effected in a manner that precludes the enlargement of rights and benefits under such Options. Adjustments, if any, and any determinations or interpretations, including any determination of whether a distribution is other than a normal cash dividend, made by the Board shall be final, binding and conclusive. For purposes of this Section 11, conversion of any convertible securities of the Company shall not be deemed to have been effected "without receipt of consideration." Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any

class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise an Option as to all or any part of the Optioned Shares, including Shares as to which the Option would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless such successor corporation does not agree to assume the Option or to substitute an equivalent option, in which case the Board shall, in lieu of such assumption or substitution, provide for the Optionee to have the right to exercise the Option as to all of the Optioned Shares, including Shares as to which the Option would not otherwise be exercisable. If the Board makes an Option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the Optionee that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option will terminate upon the expiration of such period.

12. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Company completes the corporate action relating to the grant of an option and all conditions to the grant have been satisfied, provided that conditions to the exercise of an option shall not defer the date of grant. Notice of a grant shall be given to each Employee to whom an Option is so granted within a reasonable time after the determination has been made.

13. Substitutions and Assumptions. The Board shall have the right to substitute or assume Options in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies, provided such substitutions and assumptions are permitted by Section 424 of the Code and the regulations promulgated thereunder. The number of Shares reserved pursuant to Section 3 may be increased by the corresponding number of Options assumed and, in the case of a substitution, by the net increase in the number of Shares subject to Options before and after the substitution.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable (including, but not limited to amendments which the Board deems appropriate to enhance the Company’s ability to claim deductions related to stock option exercises); provided that any increase in the number of Shares subject to the Plan, other than in connection with an adjustment under Section 11 of the Plan, shall require approval of or ratification by the shareholders of the Company.

(b) Employees in Foreign Countries. The Board shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Subsidiaries may operate to assure the viability of the benefits from Options granted to Employees employed in such countries and to meet the objectives of the Plan.

(c) Effect of Amendment or Termination. Except as otherwise provided in Sections 4 and 11, any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

16. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

17. Shareholder Approval. The Plan, as amended, is subject to approval by the shareholders of the Company at the 2004 Annual Meeting of Shareholders. If the Plan, as herein amended, is not so approved by the shareholders, the Plan, as previously approved, shall continue in effect.

[The number of shares in Sections 3 and 5(e) have been increased to reflect the 2-for-1 stock splits in May 1994, November 1996, February 1998, March 1999 and February 2003. The number of shares in Section 3 has also been increased to reflect the adjustments related to the special dividend payable December 2, 2004 to shareholders of record on November 17, 2004.]

Exhibit 99.2

MICROSOFT CORPORATION

2001 STOCK PLAN
(as amended and restated as of June 21, 2006)

1. Purpose of the Plan. The purposes of this Stock Plan are to attract and retain the best available individuals for positions of substantial responsibility, to provide additional incentive to such individuals, and to promote the success of the Company's business by aligning the financial interests of Employees and Consultants providing personal services to the Company or to any Parent or Subsidiary of the Company with long-term shareholder value.

Awards granted hereunder may be Incentive Stock Options, Nonqualified Stock Options, Stock Awards, or SARs, at the discretion of the Board and as reflected in the terms of the Award Agreement.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Award" shall mean any award or benefits granted under the Plan, including Options, Stock Awards, and SARs.

(b) "Award Agreement" shall mean a written or electronic agreement between the Company and the Awardee setting forth the terms of the Award.

(c) "Awardee" shall mean the holder of an outstanding Award.

(d) "Board" shall mean (i) the Board of Directors of the Company or (ii) both the Board and the Committee, if a Committee has been appointed in accordance with Section 4(a) of the Plan.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(f) "Committee" shall mean the Compensation Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed; provided, however, if the Board of Directors appoints more than one Committee pursuant to Section 4(a), then "Committee" shall refer to the appropriate Committee, as indicated by the context of the reference.

(g) "Common Shares" shall mean the common shares of Microsoft Corporation.

(h) "Company" shall mean Microsoft Corporation, a Washington corporation and any successor thereto.

(i) "Consultant" shall mean any person, except an Employee, engaged by the Company or any Parent or Subsidiary of the Company, to render personal services to such entity, including as an advisor.

(j) "Continuous Status as a Participant" shall mean (1) for Employees, the absence of any interruption or termination of service as an Employee, and (2) for Consultants, the absence of any interruption, expiration, or termination of such person's consulting or advisory relationship with the Company or the occurrence of any termination event as set forth in such person's Award Agreement. Continuous Status as a Participant shall not be considered interrupted (i) for an Employee in the case of sick leave, maternity leave, infant care leave, medical emergency leave, military leave, or any other leave of absence for which Continuous Status is not considered interrupted in accordance with the Company's policies on such matters, and (ii) for a Consultant, in the case of any temporary interruption in such person's availability to provide services to the Company which has been authorized in writing by a Vice President of the Company prior to its commencement.

(k) "Conversion Options" shall mean the Options described in Section 6(c) of the Plan.

(l) "Employee" shall mean any person, including an officer, who is a common law employee of, receives remuneration for personal services to, is reflected on the official human resources database as an employee of, and is on the payroll of the Company or any Parent or Subsidiary of the Company. A person is on the payroll if he or she is paid from the payroll department of the Company, or any Parent or Subsidiary of the Company. Persons providing services to the Company, or to any Parent or Subsidiary of the Company, pursuant to an agreement with a staff leasing organization, temporary workers engaged through or employed by temporary or leasing agencies, and workers who hold themselves out to the Company, Parent, or Subsidiary to which they are providing services as being independent contractors, or as being employed by or engaged through another company while providing the services are not Employees for purposes of this Plan, whether or not such persons are, or may be reclassified by the courts, the Internal Revenue Service, the U. S. Department of Labor, or other person or entity as, common law employees of the Company, Parent, or Subsidiary, either solely or jointly with another person or entity.

(m) "Effective Date" shall mean January 1, 2001.

(n) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(o) "Incentive Stock Option" shall mean any Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(p) "Maximum Annual Participant Award" shall have the meaning set forth in Section 5(b).

(q) "Nonqualified Stock Option" shall mean an Option not intended to qualify as an Incentive Stock Option.

(r) "Option" shall mean a stock option granted pursuant to Section 6 of the Plan.

(s) "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) "Participant" shall mean an Employee or Consultant.

(u) “Plan” shall mean this 2001 Stock Plan, including any amendments thereto.

(v) “Share” shall mean one Common Share, as adjusted in accordance with Section 14 of the Plan.

(w) “SAR” shall mean a stock appreciation right awarded pursuant to Section 8 of the Plan.

(x) “Stock Award” shall mean a grant of Shares or of a right to receive Shares or their cash equivalent (or both) pursuant to Section 7 of the Plan.

(y) “Subsidiary” shall mean (i) in the case of an Incentive Stock Option a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code, and (ii) in the case of a Nonqualified Stock Option, a Stock Award or an SAR, in addition to a subsidiary corporation as defined in (i), a limited liability company, partnership or other entity in which the Company controls 50 percent or more of the voting power or equity interests.

3. Shares Subject to the Plan. Subject to the provisions of Sections 14 and 16 of the Plan, the maximum aggregate number of Shares (increased, proportionately, in the event of any stock split, stock dividend or similar event with respect to the Shares) which may be awarded and delivered under the Plan shall not exceed the sum of (a) any Shares available for future awards, as of the Effective Date, under the Microsoft Corporation 1991 Stock Option Plan, as amended (“1991 Stock Plan”) and (b) any Shares that are represented by awards under the 1991 Stock Plan which, after the Effective Date, are forfeited, expire, are cancelled without delivery of Shares, or otherwise result in the return of Shares to the Company, minus (c) 100,000,000 Shares (unadjusted for any stock split or stock dividend with respect to the Shares). The Shares may be authorized, but unissued, or reacquired Common Shares.

Subject to the provisions of the following sentence, if an Award should expire or become unexercisable for any reason without having been exercised in full, the undelivered Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future Awards under the Plan. Notwithstanding anything to the contrary contained herein, any Awards of Options that are transferred to a third party pursuant to a program under which the holder of certain Options may transfer such Options to such third party in exchange for cash or other consideration, shall be removed from the Plan and the Shares subject to such Awards shall not be available for regrant under the Plan regardless of whether the transferred Options are exercised or expire without exercise.

4. Administration of the Plan.

(a) Procedure. The Plan shall be administered by the Board of Directors of the Company.

(i) The Board of Directors may appoint one or more Committees each consisting of not less than two members of the Board of Directors to administer the Plan on behalf of the Board of Directors, subject to such terms and conditions as the Board of Directors may prescribe. Once appointed, such Committees shall continue to serve until otherwise directed by the Board of Directors.

(ii) From time to time the Board of Directors may increase the size of the Committee(s) and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, or fill vacancies however caused.

(iii) The Committee(s) appointed to administer the Plan on behalf of the Board of Directors may delegate its authority to administer the Plan to the extent provided in the charter for the Committee(s) or a resolution of the Board.

(b) Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options, Nonqualified Stock Options, Stock Awards, and SARs; (ii) to determine, in accordance with Section 11(b) of the Plan, the fair market value of the Shares; (iii) to determine, in accordance with Section 11(a) of the Plan, the exercise price per share of Awards to be granted; (iv) to determine the Participants to whom, and the time or times at which, Awards shall be granted and the number of Shares to be represented by each Award; (v) to interpret the Plan and the terms of Awards; (vi) to prescribe, amend, and rescind rules and regulations relating to the Plan; including the form of Award Agreement, and manner of acceptance of an Award, (vii) to determine the terms and provisions of each Award to be granted (which need not be identical) and, with the consent of the Awardee, modify or amend any Award; (viii) to authorize conversion or substitution under the Plan of any or all Conversion Options; (ix) to accelerate or defer (with the consent of the Awardee) the vesting or exercise date of any Award; (x) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Award previously granted by the Board; and (xi) to make all other determinations deemed necessary or advisable for the administration of the Plan; *provided that*, no consent of an Awardee is necessary under clauses (vii) or (ix) if the modification, amendment, acceleration, or deferral, in the reasonable judgment of the Board confers a benefit on the Awardee, or is made pursuant to an adjustment in accordance with Section 14.

The Board may, but need not, determine that an award shall vest or be granted subject to the satisfaction of one or more performance goals. Performance goals for awards will be determined by the Compensation Committee of the Board and will be designed to support the business strategy, and align executives' interests with customer and shareholder interests. For awards that are intended to qualify as performance-based compensation under Section 162(m), performance goals will be based on one or more of the following business criteria: sales or licensing volume, revenues, customer satisfaction, expenses, organizational health/productivity, earnings (which includes similar measurements such as net profits, operating profits and net income, and which may be calculated before or after taxes, interest, depreciation, amortization or taxes), margins, cash flow, shareholder return, return on equity, return on assets or return on investments, working capital, product shipments or releases, brand or product recognition or acceptance and/or stock price. These criteria may be measured: individually, alternatively or in any combination; with respect to the Company, a subsidiary, division, business unit, product line, product or any combination of the foregoing; on an absolute basis, or relative to a target, to a designated comparison group, to results in other periods or to other external measures; and including or excluding items that could affect the measurement, such as extraordinary or unusual and nonrecurring gains or losses, litigation or claim judgments or settlements, material changes in tax laws, acquisitions or divestitures, the cumulative effect of accounting changes, asset write-downs, restructuring charges, or the results of discontinued operations.

(c) Effect of Board's Decision. All decisions, determinations, and interpretations of the Board shall be final and binding on all Participants and Awardees.

5. Eligibility.

(a) Awards may be granted to Participants and to persons to whom offers of employment as an Employee have been extended; provided that Incentive Stock Options may only be granted to Employees. For avoidance of doubt, directors are not eligible to participate in the Plan unless they are Employees or Consultants.

(b) The maximum number of Shares with respect to which an Award or Awards may be granted to any Participant in any one taxable year of the Company (the "Maximum Annual Participant Award") shall not exceed 20,000,000 Common Shares for Options or SARs, or 5,000,000 shares for Stock Awards (increased, in both cases proportionately, in the event of any stock split, stock dividend or similar event with respect to the Shares). If an Option is in tandem with an SAR, such that the exercise of the Option or SAR with respect to a Share cancels the tandem SAR or Option right, respectively, with respect to each Share, the tandem Option and SAR rights with respect to each Share shall be counted as covering but one Share for purposes of the Maximum Annual Participant Award.

6. Options.

(a) Each Option shall be designated in the written or electronic option agreement as either an Incentive Stock Option or a Nonqualified Stock Option. However, notwithstanding such designations, to the extent that the aggregate fair market value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Employee during any calendar year (under all plans of the Company) exceeds $100,000, such Options shall be treated as Nonqualified Stock Options.

(b) For purposes of Section 6(a), Options shall be taken into account in the order in which they were granted, and the fair market value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Options converted or substituted under the Plan for any or all outstanding stock options and stock appreciation rights held by employees, consultants, advisors or other option holders granted by entities subsequently acquired by the Company or a subsidiary or affiliate of the Company ("Conversion Options") shall be effective as of the close of the respective mergers into, or acquisitions of such entities by, the Company or a subsidiary or affiliate of the Company; provided that such Conversion Options may not be exercised during any periods that may be specified by the Company immediately following the close of the merger or acquisition necessary to ensure compliance with applicable law. The Conversion Options may be Incentive Stock Options or Nonqualified Stock Options, as determined by the Committee; provided, however, that stock appreciation rights in the acquired entity shall only be converted to or substituted with Nonqualified Stock Options. The Conversion Options shall be options to purchase the number of Common Shares determined by multiplying the number of shares of the acquired entity's common stock underlying each such stock option or stock appreciation right immediately prior to the closing of such merger or acquisition by the number specified in the applicable merger or acquisition agreement for conversion of each share of such entity's common stock to a Common Share (the "Merger Ratio"). Such Conversion

Options shall be exercisable at an exercise price per Common Share (increased to the nearest whole cent) equal to the exercise price per share of the acquired entity's common stock under each such stock option or stock appreciation right immediately prior to closing divided by the Merger Ratio. No fractional Common Shares will be issued upon exercise of Conversion Options. In lieu of such issuance, the Common Shares issued pursuant to each such exercise shall be rounded to the closest whole Share. Conversion Options may be granted and exercised without the issuance of an Award Agreement.

7. Stock Awards.

(a) Stock Awards may be granted either alone, in addition to, or in tandem with other Awards granted under the Plan. After the Committee determines that it will offer a Stock Award, it will advise the Awardee in writing or electronically, by means of an Award Agreement, of the terms, conditions and restrictions, including vesting, if any, related to the offer, including the number of Shares that the Awardee shall be entitled to receive or purchase, the price to be paid, if any, and, if applicable, the time within which the Awardee must accept the offer. The offer shall be accepted by execution of an Award Agreement in the manner determined by the Committee; provided that Shares may be issued to an Awardee under a fully vested Stock Award without the issuance of an Award Agreement.

(b) Unless the Committee determines otherwise, the Award Agreement shall provide for the forfeiture of the non-vested Common Shares underlying such Stock Award upon the Awardee ceasing to be a Participant. To the extent that the Awardee purchased the Shares granted under such Stock Award and any such Shares remain non-vested at the time the Awardee ceases to be a Participant, the cessation of Participant status shall cause an immediate sale of such non-vested Shares to the Company at the original price per Common Share paid by the Awardee.

8. SARs.

(a) The Committee shall have the full power and authority, exercisable in its sole discretion, to grant SARs to selected Awardees. The Committee is authorized to grant both tandem stock appreciation rights ("Tandem SARs") and stand-alone stock appreciation rights ("Stand-Alone SARs") as described below.

(b) Tandem SARs.

(i) Awardees may be granted a Tandem SAR, exercisable upon such terms and conditions as the Committee shall establish, to elect between the exercise of the underlying Section 6 Option for Common Shares or the surrender of the Option in exchange for a distribution from the Company in an amount equal to the excess of (A) the fair market value (on the Option surrender date) of the number of Shares in which the Awardee is at the time vested under the surrendered Option (or surrendered portion thereof) over (B) the aggregate exercise price payable for such vested Shares.

(ii) No such Option surrender shall be effective unless it is approved by the Committee, either at the time of the actual Option surrender or at any earlier time. If the surrender is so approved, then the distributions to which the Awardee shall become entitled under this Section 8(b) may be made in Common Shares valued at fair market value on the

Option surrender date, in cash, or partly in Shares and partly in cash, as the Committee shall deem appropriate.

(iii) If the surrender of an Option is not approved by the Committee, then the Awardee shall retain whatever rights he or she had under the surrendered Option (or surrendered portion thereof) on the Option surrender date and may exercise such rights at any time prior to the later of (A) five (5) business days after the receipt of the rejection notice or (B) the last day on which the Option is otherwise exercisable in accordance with the terms of the instrument evidencing such Option, but in no event may such rights be exercised more than ten (10) years after the date of the Option grant.

(c) Stand-Alone SARs.

(i) An Awardee may be granted a Stand-Alone SAR not tied to any underlying Option under Section 6 of the Plan. The Stand-Alone SAR shall cover a specified number of Common Shares and shall be exercisable upon such terms and conditions as the Committee shall establish. Upon exercise of the Stand-Alone SAR, the holder shall be entitled to receive a distribution from the Company in an amount equal to the excess of (A) the aggregate fair market value (on the exercise date) of the Common Shares underlying the exercised right over (B) the aggregate base price in effect for those Shares.

(ii) The number of Common Shares underlying each Stand-Alone SAR and the base price in effect for those Shares shall be determined by the Committee at the time the Stand-Alone SAR is granted. In no event, however, may the base price per Share be less than the fair market value per underlying Common Share on the grant date.

(iii) The distribution with respect to an exercised Stand-Alone SAR may be made in Common Shares valued at fair market value on the exercise date, in cash, or partly in Shares and partly in cash, as the Committee shall deem appropriate.

(d) The Common Shares underlying any SARs exercised under this Section 8 shall not be available for subsequent issuance under the Plan.

9. Term of Plan. The Plan shall become effective as of the Effective Date. It shall continue in effect until terminated under Section 17 of the Plan.

10. Term of Award; Limitations on Vesting and Repricing.

(a) The term of each Award shall be no more than ten (10) years from the date of grant. However, in the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns Shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the term of the Option shall be no more than five (5) years from the date of grant.

(b) Each Award shall vest over a period of not less than three (3) years from the date of grant, provided that Awards covering up to 50,000,000 shares (increased, proportionately, in the event of any stock split, stock dividend or similar event) may be granted without regard to the 3-year vesting restriction; provided further, that Conversion Options and awards that are granted or vest based on performance goals or that vest in less than three (3) years based on death, disability, or retirement shall not count toward the limit of this Section 10(b).

(c) No Award may be repriced, replaced, regranted through cancellation, or modified without approval of the shareholders of the Company (except in connection with an adjustment pursuant to Section 14) if the effect would be to reduce the exercise price for the Shares underlying such Award.

11. Exercise Price and Consideration.

(a) The per Share exercise price under each Award shall be such price as is determined by the Board, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

(ii) Except for Conversion Options under Section 6(c), the per Share exercise price under a Nonqualified Stock Option or SAR shall be no less than seventy-five percent (75%) of the fair market value per Share on the date of grant. Notwithstanding the foregoing (or any other provision of the Plan), Options and SARs that are granted to Employees who are non-exempt for purposes of the FLSA, shall satisfy the requirements for exclusion from regular rate of pay for purposes of the FLSA and shall have an exercise price that is at least eighty-five percent (85%) of the fair market value of the underlying Shares at the time of grant; furthermore, such Options or SARs shall not be exercisable within the six (6) month period immediately following the date of grant, except, if so provided in the Award Agreement, in the event of the Awardee's death, disability, or retirement, upon a change in corporate control of the Company, or under such other circumstances as are permitted under the FLSA or rules and regulations thereunder.

(iii) The maximum aggregate number of Shares underlying all Nonqualified Stock Options and SARs with a per Share exercise price of less than fair market value on any grant date that may be granted under this Plan is 50,000,000 Shares (increased, proportionately, in the event of any stock split, or stock dividend or similar event with respect to the Shares); provided that Conversion Options shall not count against the limit of this Section 11(a)(iii).

(b) The fair market value per Share shall be the closing price per share of the Common Share on the Nasdaq Stock Market ("Nasdaq") on the date of grant. If the Shares cease to be listed on Nasdaq, the Board shall designate an alternative method of determining the fair market value of the Shares.

(c) The consideration to be paid for the Shares to be issued upon exercise of an Award, including the method of payment, shall be determined by the Board at the time of grant and may consist of cash and/or check. Payment may also be made by delivering a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale proceeds necessary to pay the exercise price. If the Awardee is an officer of the Company within the meaning of Section 16 of the Exchange Act, the officer may, in addition, be allowed to pay all or part of the purchase price with Shares which, as of the exercise date, the officer has owned for six (6) months or more. If the Awardee is a participant in the 1998 Microsoft Corporation Stock Option Gain And Bonus Deferral Program, he may in addition be allowed to pay all or part of the purchase price of any deferred Option with Shares. Shares used by officers to pay the exercise price shall be valued at their fair market value on the exercise date.

(d) Prior to issuance of the Shares upon exercise of an Award, the Awardee shall pay any federal, state, and local income and employment tax withholding obligations applicable to such Award. If an Awardee is an officer of the Company within the meaning of Section 16 of the Exchange Act, he may elect to pay such withholding tax obligations by having the Company withhold Shares having a value equal to the amount required to be withheld, and any Award under the Plan may permit or require that such withholding tax obligations be paid by having the Company withhold Shares having a value equal to the amount required to be withheld. The value of the Shares to be withheld shall equal the fair market value of the Shares on the day the Award is exercised. The right of an officer to dispose of Shares to the Company in satisfaction of withholding tax obligations shall be deemed to be approved as part of the initial grant of an Award, unless thereafter rescinded, and shall otherwise be made in compliance with Rule 16b-3 and other applicable regulations, and any Award under the Plan may permit or require that such withholding tax obligations be paid by having the Company withhold Shares having a value equal to the amount required to be withheld.

12. Exercise of Award.

(a) Procedure for Exercise; Rights as a Shareholder. Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Board at the time of grant, and as shall be permissible under the terms of the Plan.

An Award may not be exercised for a fraction of a Share.

An Award shall be deemed to be exercised when written or electronic notice of such exercise has been given to the Company in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 11(c) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the share certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares subject to the Award, notwithstanding the exercise of the Award. The Company shall issue (or cause to be issued) such share certificate promptly upon exercise of the Award. In the event that the exercise of an Award is treated in part as the exercise of an Incentive Stock Option and in part as the exercise of a Nonqualified

Stock Option pursuant to Section 6(a), the Company shall issue a share certificate evidencing the Shares treated as acquired upon the exercise of an Incentive Stock Option and a separate share certificate evidencing the Shares treated as acquired upon the exercise of a Nonqualified Stock Option, and shall identify each such certificate accordingly in its share transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the share certificate is issued, except as provided in Section 14 of the Plan.

Exercise of an Award in any manner and delivery of the Shares subject to such Award shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Award, by the number of Shares as to which the Award is exercised.

(b) Termination of Status as a Participant. In the event of termination of an Awardee's Continuous Status as a Participant, such Awardee may exercise his or her rights under any outstanding Awards to the extent exercisable on the date of termination (but in no event later than the date of expiration of the term of such Award as set forth in the Award Agreement). To the extent that the Awardee was not entitled to exercise his or her rights under such Awards at the date of such termination, or does not exercise such rights within the time specified in the individual Award Agreements, the Awards shall terminate, except as otherwise may be provided in the Award Agreement.

(c) Disability of Awardee. Notwithstanding the provisions of Section 12(b) above, in the event of termination of an Awardee's Continuous Status as a Participant as a result of total and permanent disability (i.e., the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of twelve (12) months), the Awardee will vest in the Award, but only to the extent of the vesting that would have occurred had the Awardee remained in Continuous Status as a Participant for a period of twelve (12) months after the date on which the Participant ceased performing services as a result of the total and permanent disability. An Option or SAR that is vested pursuant to this Section 12(c) must be exercised within eighteen (18) months (or such shorter time as is specified in the grant) from the date on which the Participant ceased performing services as a result of the total and permanent disability (but in no event later than the date of expiration of the term of such Option or SAR as set forth in the Award Agreement). To the extent that the Awardee was not entitled to exercise such Option or SAR within the time specified herein, the Award shall terminate. This Section 12(c) shall only apply to a Conversion Option to the extent provided in the Award Agreement for the Conversion Option.

(d) Death of Awardee. Notwithstanding the provisions of Section 12(b) above, in the event of the death of an Awardee:

(i) who is at the time of death a Participant, the Award will vest, but only to the extent of the vesting that would have occurred had the Awardee continued living and remained in Continuous Status as a Participant twelve (12) months following the date of death. An Option or SAR that is vested pursuant to this Section 12(d)(i) may be exercised, at any time within twelve (12) months following the date of death, by the Awardee's estate or by a person who acquired the right to exercise the Award by bequest or inheritance; or

(ii) whose Option or SAR has not yet expired but whose Continuous Status as a Participant terminated prior to the date of death, the Option or SAR may be exercised, at any time within twelve (12) months following the date of death, by the Awardee's estate or by a person who acquired the right to exercise the Option or SAR by bequest or inheritance, but only to the extent of the right to exercise that had vested at the date of termination.

This Section 12(d) shall only apply to a Conversion Option to the extent provided in the Award Agreement for the Conversion Option.

(e) Notwithstanding subsections (b), (c), and (d) of this Section 12, the Board shall have the authority to extend the expiration date of any outstanding Option in circumstances in which it deems such action to be appropriate (provided that no such extension shall extend the term of an Award beyond the date on which the Award would have expired if no termination of the Employee's Continuous Status as a Participant had occurred).

13. Non-Transferability of Awards. An Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Awardee, only by the Awardee; provided that the Board may permit further transferability, on a general or specific basis, and may impose conditions and limitations on any permitted transferability.

14. Adjustments to Shares Subject to the Plan. If any change is made to the Shares by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Shares as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities and/or the price per Share covered by outstanding Awards under the Plan, (iii) the Maximum Annual Participant Award, (iv) the maximum aggregate number of Shares underlying all Nonqualified Stock Options and SARs with a per Share exercise price of less than fair market value on any grant date that may be granted under the Plan, and (v) the maximum aggregate number of Shares underlying all Awards with a vesting period of less than three years. The Board may also make adjustments described in (i)-(v) of the previous sentence in the event of any distribution of assets to shareholders other than a normal cash dividend. In determining adjustments to be made under this Section 14, the Board may take into account such factors as it deems appropriate, including (i) the restrictions of applicable law, (ii) the potential tax consequences of an adjustment and (iii) the possibility that some Awardees might receive an adjustment and a distribution or other unintended benefit, and in light of such factors or circumstances may make adjustments that are not uniform or proportionate among outstanding Awards, modify vesting dates, defer the delivery of stock certificates or make other equitable adjustments. Any such adjustments to outstanding Awards will be effected in a manner that precludes the enlargement of rights and benefits under such Awards. Adjustments, if any, and any determinations or interpretations, including any determination of whether a distribution is other than a normal cash dividend, made by the Board shall be final, binding and conclusive. For purposes of this Section 14, conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.

In the event of the proposed dissolution or liquidation of the Company, the Award will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Award shall terminate as of a date fixed by the Board and give each Awardee the right to exercise an Award as to all or any part of the Shares subject to an Award, including Shares as to which the Award would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each Award shall be assumed or an equivalent award shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless such successor corporation does not agree to assume the Award or to substitute an equivalent award, in which case the Board shall, in lieu of such assumption or substitution, provide for the Awardee to have the right to exercise the Award as to all of the Shares subject to Awards, including Shares as to which the Award would not otherwise be exercisable. If the Board makes an Award fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the Awardee that the Award shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Award will terminate upon the expiration of such period.

15. Time of Granting Awards. The date of grant of an Award shall, for all purposes, be the date on which the Company completes the corporate action relating to the grant of such Award and all conditions to the grant have been satisfied, provided that conditions to the grant, exercise or vesting of an Award shall not defer the date of grant. Notice of a grant shall be given to each Participant to whom an Award is so granted within a reasonable time after the determination has been made.

16. Substitutions and Assumptions. The Board shall have the right to substitute or assume Awards in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies, provided such substitutions and assumptions are permitted by Section 424 of the Code and the regulations promulgated thereunder. The number of Shares reserved pursuant to Section 3 may be increased by the corresponding number of Awards assumed and, in the case of a substitution, by the net increase in the number of Shares subject to Awards before and after the substitution.

17. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable (including, but not limited to amendments which the Board deems appropriate to enhance the Company's ability to claim deductions related to stock option exercises); provided that any increase in the number of Shares subject to the Plan, other than in connection with an adjustment under Section 14 of the Plan, and any amendment described in Section 10(c) of the Plan, shall require approval of or ratification by the shareholders of the Company.

(b) Participants in Foreign Countries. The Board shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Subsidiaries may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(c) Effect of Amendment or Termination. Except as otherwise provided in Sections 4 and 14, any such amendment or termination of the Plan shall not affect Awards already granted and such Awards shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Awardee and the Board, which agreement must be in writing and signed by the Awardee and the Company.

18. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

19. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

20. No Employment/Service Rights. Nothing in the Plan shall confer upon any Participant the right to an Award or to continue in service as an Employee or Consultant for any period of specific duration, or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining such person), or of any Participant or Awardee, which rights are hereby expressly reserved by each, to terminate such person’s services at any time for any reason, with or without cause.

* All share numbers in the Plan reflect the 2-for-1 stock split effected February 2003.

Exhibit 99.3

Microsoft Reports Fourth Quarter Results and Announces Share Repurchase Program

Microsoft delivers strong finish to fiscal year with 16% fourth quarter revenue growth;
Announces $20 billion tender offer

REDMOND, Wash. — July 20, 2006 — Microsoft Corp. today announced record fourth quarter revenue of $11.80 billion for the period ended June 30, 2006, a 16% increase over the same quarter of the prior year. Operating income for the quarter was $3.88 billion, a 30% increase compared with $2.99 billion in the prior year period. Operating income for the fourth quarter included certain legal charges of $351 million, compared with $756 million in the prior year period. Net income for the fourth quarter was $2.83 billion and diluted earnings per share were $0.28, which included $0.03 of certain legal charges. For the same quarter of the previous year, net income was $3.70 billion and diluted earnings per share were $0.34, which included $0.05 of certain legal charges and $0.09 of tax benefits.

For the fiscal year ended June 30, 2006, the company announced revenue of $44.28 billion, an 11% increase over the prior year. Operating income for the fiscal year was $16.47 billion, or 13% over the prior year period. Operating income for the fiscal year included $1.11 billion for certain legal charges, compared with $2.06 billion in the prior year period. Net income for the fiscal year was $12.60 billion and diluted earnings per share were $1.20, which included $0.08 of certain legal charges and $0.01 of tax benefits. For the previous fiscal year, net income and diluted earnings per share were $12.25 billion and $1.12, which included $0.13 of certain legal charges and $0.09 of tax benefits.

“We delivered a very strong finish to the fiscal year highlighted by customer demand for our recently launched products of Xbox 360™, SQL Server™ 2005, Visual Studio® 2005 and Microsoft Dynamics™ CRM 3.0, which fueled a combined 31% revenue growth of their business groups for the quarter,” said Chris Liddell, chief financial officer of Microsoft. “Our upcoming launches of Windows Vista™, the 2007 Microsoft® Office system, Exchange Server 2007, and other key products position us to continue to deliver strong revenue growth in fiscal year 2007. We are also very pleased that both the Microsoft Business Solutions and the Mobile and Embedded Devices businesses achieved profitability for the full fiscal year.”

The company also announced that its board of directors has authorized new share repurchase programs, comprising a $20 billion tender offer scheduled to be completed on August 17, 2006, as well as authorization for up to an additional $20 billion ongoing share repurchase program with an expiration of June 30, 2011. Furthermore, the company also announced today that it completed its previously announced $30 billion stock repurchase program.

"With our share repurchase programs announcement today, we reaffirm our confidence and optimism in the long term future of the company and continue to execute on our strategy of returning capital to shareholders," said Liddell.

Business Highlights

Revenue and operating income growth for the quarter were driven by broad-based strength in both business and consumer customer segments. Server and Tools delivered 18% revenue growth for the quarter, fueled by an increase of over 35% revenue growth for SQL Server. Healthy Client revenue was driven by continued growth in the PC market as well as improvements in its commercial and retail licensing results. The Microsoft Dynamics CRM 3.0 product continues to show robust customer acceptance, adding more than fifty thousand seats during the quarter, while licenses for Windows Mobile®-based phones grew by 90% in fiscal year 2006.

"The results for this fiscal year highlight the value and even greater satisfaction our customers are experiencing with our new products as we kicked off our multi-year product cycle," said Kevin Turner, chief operating officer at Microsoft. "We are also seeing fantastic momentum in multi-year licensing growth as customer excitement for upcoming product releases drove higher than expected annuity sales and unearned revenue growth."

Microsoft returned over $5 billion to shareholders in the form of dividends and share repurchases during the quarter, and returned over $23 billion to shareholders this fiscal year.

Business Outlook

Microsoft management offers the following guidance for the quarter ending September 30, 2006:

- Revenue is expected to be in the range of $10.6 billion to $10.8 billion.
- Operating income is expected to be in the range of $4.0 billion to $4.2 billion.
- Diluted earnings per share are expected to be $0.30 to $0.32.

Management offers the following guidance for the full fiscal year ending June 30, 2007:

- Revenue is expected to be in the range of $49.7 billion to $50.7 billion.
- Operating income is expected to be in the range of $18.9 billion to $19.4 billion.
- Diluted earnings per share are expected to be in the range of $1.43 to $1.47.

Tender Offer Details

Under the terms of the tender offer, the company will repurchase up to $20 billion of its common stock at a price per share not greater than $24.75 and not less than $22.50. This represents the repurchase of up to 808,080,808 shares of common stock, or about 8.1% of the common shares outstanding. The tender offer is expected to commence on July 21, 2006 and to expire, unless extended, at 12:00 midnight, Eastern Time, on August 17, 2006. A modified "Dutch auction" will allow shareholders to indicate how many shares and at what price within the company's specified range they wish to tender. Based on the number of shares tendered and the prices specified by the tendering shareholders, the company will determine the lowest price per share within the range that will enable it to purchase up to 808,080,808 company shares, or such lesser number of shares as are properly tendered. The company will not purchase shares below a price stipulated by a shareholder, and in some cases, may actually purchase shares at prices above a shareholder's indication under the terms of the modified "Dutch auction." Specific instructions and a complete explanation of the terms and conditions of the tender offer are contained in the Offer to Purchase and related materials that will be mailed to shareholders of record beginning on July 24, 2006.

Microsoft's directors and executive officers have advised Microsoft that they do not intend to tender any of their shares in the tender offer.

Goldman Sachs and Deutsche Bank will serve as co-dealer managers for the tender offer. Georgeson Inc. will serve as information agent and Mellon Investor Services will serve as the depositary.

This press release is for informational purpose only and is not an offer to buy or the solicitation of an offer to sell any shares of the company's common stock. The solicitation of offers to buy the company's common stock will only be made pursuant to the Offer to Purchase and related materials that the company will send to its shareholders. Shareholders should read those materials carefully because they will contain important information, including the various terms and conditions of the tender offer. Shareholders will be able to obtain copies of the Offer to Purchase, related materials filed by the company as part of the statement on Schedule "TO" and other documents filed with the Securities and Exchange Commission through the Commission's internet address at http://www.sec.gov without charge when these documents become available. Shareholders and investors may also obtain a copy of these documents, as well as any other documents the company has filed with the Securities and Exchange Commission, without charge, from the company or at the Investor Relations section of the company's website: www.microsoft.com. Shareholders are urged to carefully read these materials prior to making any decision with respect to the offer. Shareholders and investors who have questions or need assistance may call Georgeson Inc. at (866) 482-5026 in the United States and Canada, and +44 (0) 207 019 7137 for all other countries.

Webcast Details

Microsoft will hold an audio webcast at 2:30 p.m. PDT (5:30 p.m. EDT) today with Chris Liddell, senior vice president and chief financial officer, Frank Brod, corporate vice president and chief accounting officer, and Colleen Healy, general manager of Investor Relations, to discuss details of the company's performance for the quarter and certain forward-looking information. The session may be accessed at http://www.microsoft.com/msft. The webcast will be available for replay through the close of business on July 20, 2007.

About Microsoft

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.

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Forward-Looking Statements

Statements in this release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

- challenges to our core business model;
- intense competition in all our markets;
- our continued ability to protect the company's intellectual property rights;
- claims that we have infringed the intellectual property rights of others;
- the possibility of unauthorized disclosure of significant portions of our source code;
- actual or perceived security vulnerabilities in our products that could reduce revenue or lead to liability;
- government litigation and regulation affecting how we design and market our products;
- our ability to attract and retain talented employees;
- delays in product development and related product release schedules;
- significant business investments that may not produce offsetting increases in revenue;
- the level of corporate spending and changes in general economic conditions that affect demand for computer hardware or software;
- adverse results in legal disputes;
- unanticipated tax liabilities;
- key component shortages and delays in Xbox 360 product delivery;
- impairment of goodwill or amortizable intangible assets causing a charge to earnings;
- changes in accounting that may affect our reported earnings and operating income;
- exposure to increased economic and regulatory uncertainties from operating a global business;
- general economic and geo-political conditions;
- natural disaster, cyber-attack or other catastrophic event disrupting our business;
- acquisitions and joint ventures that adversely affect the business;
- limitations on the availability of insurance and resulting uninsured losses;
- sales channel disruption such as the bankruptcy of a major distributor;
- implementation of operating cost structures that align with revenue growth;
- continued access to third party distribution channels for MSN®; and
- foreign currency, interest rate, fixed income, equity and commodity price risks.

For further information regarding risks and uncertainties associated with Microsoft's business, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" sections of Microsoft's SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft's Investor Relations department at (800) 285-7772 or at Microsoft's Investor Relations website at http://www.microsoft.com/msft.

All information in this release is as of July 20, 2006. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company's expectations.

For more information, financial analysts and investors only:
Colleen Healy, general manager, Investor Relations, (425) 706-3703

For more information, press only:
Rapid Response Team, Waggener Edstrom Worldwide, (503) 443-7070, rrt@waggeneredstrom.com

Note to editors: If you are interested in viewing additional information on Microsoft, please visit the Microsoft web page at http://www.microsoft.com/presspass on Microsoft's corporate information pages. Web links, telephone numbers and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today's 2:30 p.m. PDT conference call with investors and analysts, is available at http://www.microsoft.com/msft.

Microsoft Corporation
Income Statements
(In millions, except per share amounts)

	Three Months Ended June 30, [1]		Twelve Months Ended June 30,	
	2006	2005[2]	2006	2005[2]
Revenue	$ 11,804	$ 10,161	$ 44,282	$ 39,788
Operating expenses:				
Cost of revenue	2,130	1,388	7,650	6,031
Research and development	1,861	1,664	6,584	6,097
Sales and marketing	2,822	2,707	9,818	8,563
General and administrative	1,110	1,413	3,758	4,536
Total operating expenses	7,923	7,172	27,810	25,227
Operating income	3,881	2,989	16,472	14,561
Investment income and other	377	872	1,790	2,067
Income before income taxes	4,258	3,861	18,262	16,628
Provision for income taxes	1,430	161	5,663	4,374
Net income	$ 2,828	$ 3,700	$ 12,599	$ 12,254
Earnings per share:				
Basic	$ 0.28	$ 0.34	$ 1.21	$ 1.13
Diluted	$ 0.28	$ 0.34	$ 1.20	$ 1.12
Weighted average shares outstanding:				
Basic	10,186	10,750	10,438	10,839
Diluted	10,255	10,819	10,531	10,906
Cash dividends declared per common share	$ 0.09	$ 0.08	$ 0.34	$ 3.40

(1) Unaudited

(2) Certain prior year amounts have been reclassified to conform to the current year presentation.

Microsoft Corporation
Balance Sheets
(In millions)

	June 30, 2006 [1]	June 30, 2005
Assets		
Current assets:		
Cash and equivalents	$ 6,714	$ 4,851
Short-term investments (including securities pledged as collateral of $3,065 and $-)	27,447	32,900
Total cash and short-term investments	34,161	37,751
Accounts receivable, net of allowance for doubtful accounts of $142 and $171	9,316	7,180
Inventories, net	1,478	491
Deferred income taxes	1,940	1,701
Other	2,115	1,614
Total current assets	49,010	48,737
Property and equipment, net	3,044	2,346
Equity and other investments	9,232	11,004
Goodwill	3,866	3,309
Intangible assets, net	539	499
Deferred income taxes	2,611	3,621
Other long-term assets	1,295	1,299
Total assets	$ 69,597	$ 70,815
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,909	$ 2,086
Accrued compensation	1,938	1,662
Income taxes	1,557	2,020
Short-term unearned revenue	9,138	7,502
Securities lending payable	3,117	—
Other	3,783	3,607
Total current liabilities	22,442	16,877
Long-term unearned revenue	1,764	1,665
Other long-term liabilities	5,287	4,158
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital - shares authorized 24,000; outstanding 10,062 and 10,710	59,005	60,413
Retained deficit, including accumulated other comprehensive income of $1,229 and $1,426	(18,901)	(12,298)
Total stockholders' equity	40,104	48,115
Total liabilities and stockholders' equity	$ 69,597	$ 70,815

(1) Unaudited

Microsoft Corporation
Cash Flows Statements
(In millions)

	Three Months Ended June 30, 2006 [1]	Three Months Ended June 30, 2005 [1]	Twelve Months Ended June 30, 2006 [1]	Twelve Months Ended June 30, 2005
Operations				
Net income	$ 2,828	$ 3,700	$ 12,599	$ 12,254
Depreciation, amortization, and other noncash items	261	282	903	855
Stock-based compensation	363	535	1,715	2,448
Net recognized gains on investments	(6)	(543)	(270)	(527)
Stock option income tax benefits	—	404	—	668
Excess tax benefits from stock-based payment arrangements	(22)	—	(89)	—
Deferred income taxes	448	(248)	219	(179)
Unearned revenue	6,081	4,666	16,453	13,831
Recognition of unearned revenue	(4,073)	(3,450)	(14,729)	(12,919)
Accounts receivable	(2,439)	(1,707)	(2,071)	(1,243)
Other current assets	(577)	(286)	(1,405)	(245)
Other long-term assets	(37)	(44)	(49)	21
Other current liabilities	(76)	113	(145)	396
Other long-term liabilities	530	554	1,273	1,245
Net cash from operations	3,281	3,976	14,404	16,605
Financing				
Common stock issued	192	1,473	2,101	3,109
Common stock repurchased	(3,981)	(4,306)	(19,207)	(8,057)
Common stock cash dividends	(917)	(859)	(3,545)	(36,112)
Excess tax benefits from stock-based payment arrangements	22	—	89	—
Other	—	(18)	—	(18)
Net cash used in financing	(4,684)	(3,710)	(20,562)	(41,078)
Investing				
Additions to property and equipment	(745)	(260)	(1,578)	(812)
Acquisition of companies, net of cash acquired	(316)	(195)	(649)	(207)
Purchases of investments	(5,474)	(9,247)	(51,117)	(68,045)
Maturities of investments	977	962	3,877	29,153
Sales of investments	7,517	9,599	54,353	54,938
Net proceeds from securities lending	1,780	—	3,117	—
Net cash from investing	3,739	859	8,003	15,027
Net change in cash and equivalents	2,336	1,125	1,845	(9,446)
Effect of exchange rates on cash and equivalents	27	(56)	18	(7)
Cash and equivalents, beginning of period	4,351	3,782	4,851	14,304
Cash and equivalents, end of period	$ 6,714	$ 4,851	$ 6,714	$ 4,851

[1] Unaudited

Microsoft Corporation
Segment Revenue and Operating Income / (Loss)
(In millions)

Revenue	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005
Segments				
Client	$ 3,376	$ 3,014	$13,209	$ 12,151
Server and Tools	3,184	2,696	11,467	9,938
Information Worker	3,133	2,944	11,756	11,169
Microsoft Business Solutions	280	242	919	784
MSN	580	598	2,298	2,344
Mobile and Embedded Devices	113	80	377	262
Home and Entertainment	1,138	587	4,256	3,140
Total revenue	$11,804	$10,161	$44,282	$ 39,788

Operating Income / (Loss)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005
Segments				
Client	$ 2,504	$ 2,183	$10,203	$ 9,464
Server and Tools	1,249	814	4,323	3,291
Information Worker	2,150	2,011	8,285	8,025
Microsoft Business Solutions	38	(84)	24	(171)
MSN	(190)	101	(77)	412
Mobile and Embedded Devices	(2)	(15)	2	(65)
Home and Entertainment	(414)	(201)	(1,262)	(485)
Corporate-Level Activity	(1,454)	(1,820)	(5,026)	(5,910)
Total operating income	$ 3,881	$ 2,989	$16,472	$ 14,561

Microsoft Corp.
Financial Highlights
Fourth Quarter and Fiscal Year 2006
(All growth percentages are comparisons
to the comparable quarter of fiscal year 2005 or full fiscal year 2005)

This document contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements in this document. We undertake no duty to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Summary

(In millions, except percentages)	Three Months Ended June 30, 2006	2005	Percentage Change	Twelve Months Ended June 30, 2006	2005	Percentage Change
Revenue	**$11,804**	$10,161	16%	**$44,282**	$39,788	11%
Operating income	**$ 3,881**	$ 2,989	30%	**$16,472**	$14,561	13%

Fourth Quarter

Our revenue growth for the three months ended June 30, 2006 was driven primarily by an increase in Xbox 360 revenue, increased licensing of SQL Server, Windows Server, and other server applications, growth in licensing of Windows Client operating systems through original equipment manufacturers ("OEM"), and increased licensing of Office and other Information Worker products. Continued PC and server shipment growth also contributed to our overall revenue growth. Based on our estimates, total worldwide PC shipments from all sources grew approximately 11% to 12% driven by strong business demand in both emerging and mature markets. Included in the fourth quarter was an increase to revenue of $180 million resulting from the alignment of our billings associated with OEM distributors in our system builder channel with both industry practices and other Microsoft channels. Foreign currency exchange rates did not have a significant impact on consolidated or operating segment revenue during the quarter.

For the three months ended June 30, 2006, operating income increased primarily reflecting the revenue increase and a $379 million decrease in costs for legal settlements and legal contingencies. These changes were partially offset by a $742 million increase in cost of revenue primarily as a result of Xbox 360 console sales and a $197 million increase in research and development as a result of our continued efforts to support MSN's development of adCenter and its Live Services strategy, and continuing research and development efforts in our Home and Entertainment segment. Headcount-related costs, including stock-based compensation expense, increased $260 million or 11% resulting from both a 16% growth in headcount over the past twelve months and an increase in salaries and benefits for existing headcount. Stock-based compensation expense decreased $172 million or 32% reflecting a continuing decline in stock option amortization expense.

Full Fiscal Year

Our revenue growth for fiscal year 2006 was driven primarily by growth in SQL Server following the launch of SQL Server 2005 in the second quarter, Windows Server and other server applications, increased Xbox revenue resulting from the Xbox 360 launch in the second quarter, growth in licensing of Windows Client operating systems through OEMs, and increased licensing of Office and other Information Worker products. Based on our estimates, total worldwide PC shipments from all sources grew approximately 12% to 14% and total server hardware shipments grew approximately 11% to 13% during fiscal year 2006. Foreign currency exchange rates did not have a significant impact on consolidated or operating segment revenue during the fiscal year.

Operating income for fiscal year 2006 increased primarily reflecting the revenue increase and a $991 million decrease in costs for legal settlements and legal contingencies. These changes were partially offset by a $1.62 billion increase in cost of revenue related to Xbox 360 and a $1.26 billion increase in sales and marketing expense primarily as a result of increased investments in partner marketing and product launch-related spending. Headcount-related costs, including stock-based compensation expense, increased $682 million or 7% resulting from both an increase in salaries and benefits for existing headcount and a 16% growth in headcount over the past twelve months. Stock-based compensation expense decreased $733 million or 30% reflecting a continuing decline in stock option amortization expense.

SEGMENT PRODUCT REVENUE/OPERATING INCOME (LOSS)

Our seven segments are Client; Server and Tools; Information Worker; Microsoft Business Solutions; MSN; Mobile and Embedded Devices; and Home and Entertainment. On July 17, 2006 we announced a change in our operating segments reflecting the culmination of our realignment announced in September 2005. These changes will be effective for fiscal year 2007; the seven segments discussed in this analysis are presented the way we internally managed and monitored performance at the business group level in fiscal year 2006.

The revenue and operating income/(loss) amounts in this section are presented on a basis consistent with U.S. GAAP and include certain reconciling items attributable to each of the segments. Certain corporate level expenses have been excluded from our segment operating results and are analyzed separately. Fiscal year 2005 amounts have been restated for certain internal reorganizations and to conform to the current period presentation.

Client

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Revenue	**$3,376**	$3,014	12%	**$13,209**	$12,151	9%
Operating income	**$2,504**	$2,183	15%	**$10,203**	$ 9,464	8%

Client consists of premium edition operating systems, including Windows XP Professional, Media Center Edition, Tablet PC Edition, and other standard Windows operating systems, including Windows XP Home. Premium offerings are Windows operating systems sold at a premium above Windows XP Home. Client revenue growth correlates with the growth of purchases of PCs from OEMs that pre-install versions of Windows operating systems because the OEM channel accounts for over 80% of total Client revenue.

Fourth Quarter

Client revenue increased reflecting $330 million or 13% growth in OEM revenue driven by 19% growth in OEM licenses and $32 million or 6% growth in revenue from commercial and retail licensing of Windows operating systems. OEM revenue growth included an increase to revenue of $89 million resulting from the alignment of our billings associated with OEM distributors in our system builder channel with both industry standards and other Microsoft channels. The mix of OEM Windows operating systems licensed with premium edition operating systems as a percentage of total OEM Windows operating systems licensed (“OEM Premium Mix”) during the quarter increased two percentage points to 55% of total OEM Windows operating systems. The quarterly differences between unit growth rates and revenue growth rates are affected by the mix of premium versions of operating systems licensed during the quarter, changes in the geographical mix, and the channel mix of products sold by large, multinational OEMs versus those sold by OEM distributors in the system builder channel.

Client operating income increased primarily reflecting the increase in OEM revenue partially offset by an increase in headcount-related costs. Headcount-related costs increased 9% in the three months ended June 30, 2006 reflecting both a 13% increase in headcount primarily associated with Windows Vista and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Client revenue increased reflecting $1.18 billion or 12% growth in OEM revenue driven by 17% growth in OEM license units from increased PC unit shipments, partially offset by a $118 million or 6% decrease in revenue from commercial and retail licensing of Windows operating systems. During the year, the OEM Premium Mix increased two percentage points to 52%.

Client operating income increased reflecting the increase in OEM revenue partially offset by a $224 million increase in sales and marketing expenses, excluding headcount-related costs, mainly driven by increased investments in partner marketing and Windows Vista pre-launch programs. Headcount-related costs increased 6% in the twelve months ended June 30, 2006 reflecting both a 13% increase in headcount primarily associated with Windows Vista and further investments in our sales and marketing organization, and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Server and Tools

(In millions, except percentages)	Three Months Ended June 30, 2006	2005	Percentage Change	Twelve Months Ended June 30, 2006	2005	Percentage Change
Revenue	**$3,184**	$2,696	18%	**$11,467**	$9,938	15%
Operating income	**$1,249**	$ 814	53%	**$ 4,323**	$3,291	31%

Server and Tools consists of server software licenses and client access licenses ("CAL") for Windows Server, Microsoft SQL Server, Exchange Server and other server products. It also includes developer tools, training, certification, Microsoft Press, Premier and Professional product support services, and Microsoft Consulting Services. Server and Tools concentrates on licensing products, applications, tools, content and services that make information technology professionals and developers more productive and efficient. The segment uses multiple channels for licensing including pre-installed OEM versions, licenses through partners, and licenses directly to end customers. The licenses are sold both as one-time licenses and as multi-year volume licenses. Server and Tools uses product innovation and partnerships with information technology professionals to drive the adoption and sales growth of its products.

Fourth Quarter

Server and Tools revenue increased during the fourth quarter of fiscal year 2006 mainly driven by growth in SQL Server following the launch of SQL Server 2005 in the second quarter and continued strength in Windows Server licensing. Server and Server applications revenue, including CAL revenue, grew $436 million or 19%. The results reflect broad adoption of Windows Server System products, especially SQL Server, which grew over 35% for the quarter. Consulting, Premier and Professional product support services revenue increased $52 million or 13% primarily due to higher demand for services.

Server and Tools operating income increased reflecting increased revenue, partially offset by increased sales and marketing costs primarily as a result of increased headcount-related costs. Total Server and Tools headcount-related costs increased 5% related to both an 11% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Server and Tools revenue increased during fiscal year 2006 mainly driven by growth in SQL Server, Windows Server, and Core CAL. SQL Server 2005 and Visual Studio 2005 were launched in the second quarter of fiscal year 2006 and produced revenue growth in these product lines. Revenue is impacted by overall server hardware shipments which we estimate grew 11% to 13% in fiscal year 2006. Server and Server applications revenue, including CAL revenue, grew $1.31 billion or 16% during fiscal year 2006. The results reflect broad adoption of Windows Server System products, especially SQL Server, which grew over 30% for the year. Consulting, Premier and Professional product support services revenue increased $218 million or 15% primarily due to higher demand for services.

Server and Tools operating income increased during fiscal year 2006 primarily reflecting increased revenue, partially offset by increased sales and marketing expenses. Excluding headcount-related costs, sales and marketing expenses increased $274 million due to additional spending to support long term strategies and marketing expenses primarily related to the launch of SQL Server 2005 and Visual Studio 2005. Total Server and Tools headcount-related costs increased 5% related to both an 11% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Information Worker

(In millions, except percentages)	Three Months Ended June 30, 2006	2005	Percentage Change	Twelve Months Ended June 30, 2006	2005	Percentage Change
Revenue	**$3,133**	$2,944	6%	**$11,756**	$11,169	5%
Operating income	**$2,150**	$2,011	7%	**$ 8,285**	$ 8,025	3%

Information Worker primarily consists of the Microsoft Office system of programs, servers, solutions, and services designed to increase personal, team, and organization productivity. Information Worker includes Microsoft Office, Microsoft Project, Microsoft Visio, SharePoint Portal Server CAL, and other information worker products including Office Communications Server and OneNote. Revenue growth depends on the ability to add value to the core Office product set and expand our product offerings in other information worker areas such as enterprise content management, collaboration, unified communications, and business intelligence.

Fourth Quarter

Information Worker revenue increased during the three months ended June 30, 2006 primarily reflecting a $144 million or 6% increase in volume licensing, retail packaged products, and preinstalled versions of Office in Japan, while OEM revenue increased $45 million or 11%. OEM revenue growth included an increase to revenue of $60 million resulting from the alignment of our billings associated with OEM distributors in our system builder channel with both industry practice and other Microsoft channels.

Information Worker operating income increased reflecting the revenue growth, partially offset by a $30 million or 5% increase in sales and marketing expenses as a result of continued investment in field-dedicated headcount in additional geographic markets and a $23 million or 12% increase in research and development expenses related to Office Communications Server, Office Live and Microsoft Office 2007. Headcount-related costs increased 14% during the quarter reflecting both an 18% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Information Worker revenue increased in fiscal year 2006 primarily reflecting a $521 million or 5% increase in volume licensing, retail packaged products, and preinstalled versions of Office in Japan, while OEM revenue increased $66 million or 4%.

Information Worker operating income growth for the fiscal year was primarily due to the revenue growth, partially offset by a $283 million or 15% increase in sales and marketing expenses related to supporting field sales efforts and a $71 million or 10% increase in research and development expenses. Headcount-related costs increased 14% during fiscal year 2006 reflecting both an 18% increase in headcount related to supporting field sales efforts and research and development investments in future products and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Microsoft Business Solutions

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Revenue	**$280**	$ 242	16%	**$919**	$ 784	17%
Operating income (loss)	**$ 38**	$ (84)	145%	**$ 24**	$(171)	114%

Microsoft Business Solutions provides business management software solutions targeted to businesses of varying sizes. The main products consist of enterprise resource planning (“ERP”) solutions, customer relationship management (“CRM”) software, retail solutions, Microsoft Partner Program, and related services. Microsoft Business Solutions also includes the Small and Mid-market Solutions & Partners (“SMS&P”) organization, which focuses on sales to customers and partners in the small and mid-market customer segments. Revenue is derived from software and services sales, with software sales representing a significant amount of total revenue. Software revenues include both new software licenses and enhancement plans, which provide customers with future software upgrades over the period of the plan. Our solutions are delivered through a worldwide network of channel partners that provide services and local support.

Fourth Quarter

Microsoft Business Solutions revenue increased as a result of a $23 million or 15% growth in license revenue and a $13 million or 20% growth in enhancement plan revenue. License revenue growth was primarily driven by new users for Microsoft CRM and existing Dynamics ERP customers purchasing expanded functionality and additional user licenses. Enhancement plan revenue growth resulted primarily from renewals of Dynamics ERP products.

Microsoft Business Solutions operating income increased as a result of the revenue growth and a $78 million decrease in sales and marketing expenses as a result of decreased net SMS&P spending. Headcount-related costs increased 4% reflecting both a 10% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Microsoft Business Solutions revenue increased as a result of an $85 million or 18% growth in license revenue and a $46 million or 18% growth in enhancement plan revenue. License revenue growth was driven by new users for Microsoft CRM and existing Dynamics ERP customers purchasing expanded functionality and additional user licenses. Enhancement plan revenue growth resulted primarily from Dynamics ERP products.

Microsoft Business Solutions operating income increased reflecting the increase in revenue accompanied by a $56 million decrease in sales and marketing expense as a result of decreased net SMS&P spending. Headcount-related costs increased 3% reflecting both a 10% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

MSN

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Revenue	**$ 580**	$598	(3)%	**$2,298**	$2,344	(2)%
Operating income (loss)	**$(190)**	$101	(288)%	**$ (77)**	$ 412	(119)%

MSN includes personal communications services, such as e-mail and instant messaging, and online information offerings, such as MSN Search, and the MSN portals and channels around the world. MSN also provides a variety of online paid services in addition to MSN Internet Access and MSN Premium Web Services. Revenue is derived primarily from advertisers on MSN, from consumers and partners through subscriptions and transactions generated from online paid services, and from subscribers to MSN Narrowband Internet Access. In fiscal year 2006, we launched MSN adCenter – our internally developed advertising platform – in certain international markets and throughout the U.S. where it now serves 100 percent of paid search traffic on our online properties. We believe MSN adCenter will enable us to increase both display and search advertising revenues by reducing our reliance on third parties for delivering ads. Effective July 1, 2005, functions related to MapPoint previously reported in Mobile and Embedded Devices were moved to MSN. Mobile and Embedded Devices and MSN operating results for the prior periods have been restated for this reorganization. In November 2005, Microsoft announced Windows Live™, which is a set of Internet services and software designed to bring together user relationships, information, and interests, with enhanced safety and security across PCs, devices, and the Web. In May 2006, Microsoft announced the third release of Windows Live™ Local, our online local search and mapping service that gives people the ability to quickly find maps, directions and local search information. In June 2006, we released Windows Live Messenger to consumers in 58 countries.

Fourth Quarter

MSN revenue decreased primarily reflecting a $16 million or 13% decline in access revenue as subscribers continue to migrate to broadband or other competitively priced service providers, and a $5 million or 8% decrease in revenue from subscriptions and transaction services other than access. MSN advertising revenue remained flat due to an increase in display revenue offset by a reduction in search revenue resulting from the ramp up of adCenter.

MSN operating income decreased due to a $105 million or 64% increase in research and development costs, a $101 million or 67% increase in sales and marketing expenses, and a $52 million or 29% increase in cost of revenue as we continue to invest in MSN adCenter, Windows Live and other new platforms. Headcount-related costs increased 44% in the fourth quarter reflecting a 44% increase in headcount and increased salaries and benefits for existing employees, partially offset by a decrease in stock-based compensation.

Full Fiscal Year

MSN revenue decreased primarily reflecting a $195 million or 28% in decline in access revenue, partially offset by a $126 million or 9% increase in advertising revenue and a $23 million or 9% increase in revenue from subscription and transaction services other than access. As of June 30, 2006, MSN had 2.1 million access subscribers compared with 2.7 million at June 30, 2005. In addition, MSN had over 261 million active Hotmail accounts and over 243 million active Messenger accounts as of June 30, 2006. The increase in advertising revenue reflects growth in display advertising for portals, channels, email, and messaging services, which was partially offset by a decline in search revenue due to the ramp up of adCenter.

MSN operating income decreased due to a $230 million or 39% increase in research and development costs, a $126 million or 22% increase in sales and marketing expenses, and a $67 million or 9% increase in cost of revenue as we continue to invest in MSN adCenter, Windows Live and other new platforms. Headcount-related costs increased 25% reflecting a 44% increase in headcount and increased salaries and benefits for existing employees, partially offset by a decrease in stock-based compensation.

Mobile and Embedded Devices

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Revenue	**$113**	$ 80	41%	**$ 377**	$ 262	44%
Operating income (loss)	**$ (2)**	$ (15)	87%	**$ 2**	$ (65)	103%

Mobile and Embedded Devices includes Windows Mobile software, Windows Embedded operating systems, and Windows Automotive. These products extend the advantages of the Windows platform to mobile devices such as PDAs, phones, and a wide range of embedded devices. The business is also responsible for managing sales and customer relationships for Microsoft overall with device manufacturers and communication sector customers. The communication sector includes network service providers (such as wireless, wireline and cable operators) and media and entertainment companies. The market for products in these segments is intensely competitive. Competitive alternatives vary based on product lines and include product offerings from commercial and non-commercial mobile operating system providers, and proprietary software developed by OEMs and mobile operators. Short product life cycles in product lines such as Windows Mobile software may impact our continuing revenue streams. Effective July 1, 2005, functions related to MapPoint previously reported in Mobile and Embedded Devices were moved to MSN. Mobile and Embedded Devices and MSN operating results for the prior periods have been restated for this reorganization.

Fourth Quarter

Mobile and Embedded Devices revenue growth was primarily due to strength in Windows Mobile software and Windows Embedded operating systems sales. Revenue for Windows Mobile software increased $16 million or 37% driven by increased shipments of phone-enabled devices, partially offset by a decline in shipments for stand-alone PDAs. Revenue for Windows Embedded operating systems increased $12 million or 38% compared to the fourth quarter of fiscal year 2005.

Mobile and Embedded Devices operating loss decreased as a result of the revenue growth which was partially offset by a $17 million or 31% increase in both research and development expenses and cost of revenue. Headcount-related costs increased 22% during the quarter reflecting both a 24% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Mobile and Embedded Devices revenue growth was primarily due to unit volume increases in all major product lines, especially Windows Mobile software sales and Windows Embedded operating systems. Increased revenue for Windows Mobile software was primarily driven by increased market demand for phone-enabled devices, partially offset by a decline in shipments for stand-alone PDAs. In fiscal year 2006, revenue for Windows Mobile software increased $55 million or 37% while revenue for Windows Embedded operating systems increased $49 million or 47%.

Mobile and Embedded Devices generated operating income for fiscal year 2006 as opposed to the operating loss in fiscal year 2005 primarily due to increased revenue, partially offset by a $42 million or 21% increase in both research and development and general and administrative expenses. Headcount-related costs increased 15% reflecting both a 24% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Home and Entertainment

(In millions, except percentages)	Three Months Ended June 30, 2006	2005	Percentage Change	Twelve Months Ended June 30, 2006	2005	Percentage Change
Revenue	**$1,138**	$ 587	94%	**$ 4,256**	$3,140	36%
Operating loss	**$ (414)**	$(201)	(106)%	**$(1,262)**	$ (485)	(160)%

Home and Entertainment includes the Microsoft Xbox video game console system, PC games, the Home Products Division, and TV platform products for the interactive television industry. The success of video game consoles is determined by console innovation, the portfolio of video game content for the console, online services, and the market share of the console. Our Xbox business is transitioning to a new console, the Xbox 360, which launched in the second quarter of fiscal year 2006. We believe that the functionality of our new console, games portfolio, and online services are well-positioned relative to forthcoming competitive consoles. We also believe launching in advance of competitive consoles will provide a strategic advantage for the long-term success of Xbox 360. Revenue from the first generation of Xbox products has declined and is expected to continue to decline as a result of the introduction of Xbox 360.

Fourth Quarter

Home and Entertainment revenue increased primarily reflecting an increase in Xbox revenue of $503 million or 129%. Xbox revenue increased mainly due to the shipment of 1.8 million Xbox 360 consoles, which exceeded the number of first generation consoles sold in the same period of the prior year. In addition, Xbox 360 consoles sell at a higher average price than first generation consoles. In the fourth quarter of fiscal 2006, the availability of Xbox 360 consoles was no longer limited by supply constraints. Growth in revenue of $48 million or 24% from our Home Products Division, TV platform products, and PC games sales also contributed to the total Home and Entertainment revenue growth.

Home and Entertainment operating loss increased primarily as a result of a $682 million increase in cost of revenue primarily associated with the Xbox 360, partially offset by the revenue growth. Our business model anticipates that while we currently sell Xbox 360 consoles at a negative margin, product cost reductions and the future margins on sales of games and other products will enable us to achieve a positive margin over the Xbox 360 console lifecycle. The first generation Xbox consoles continue to have negative margins. Headcount-related costs increased 11% reflecting both a 19% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Full Fiscal Year

Home and Entertainment revenue increased primarily due to the launch of the Xbox 360 console partially offset by a decline in first party Xbox game sales primarily resulting from the significant impact of Halo2 in fiscal year 2005. We sold approximately 5 million Xbox 360 consoles during the fiscal year. The revenue growth was also attributed to $140 million or 15% growth from our other product lines, primarily as a result of an increase in PC games sales due to significant new game releases, especially “Age of Empires III”, and an increase in MSTV revenue due to deployments in fiscal year 2006.

Home and Entertainment operating loss increased primarily as a result of a $1.64 billion increase in cost of revenue primarily as a result of the number of Xbox 360 consoles sold and higher Xbox 360 unit costs, partially offset by the revenue growth. Our fiscal year 2006 operating loss increase was also attributable to the significant impact of Halo2 in fiscal year 2005. Headcount-related costs increased 5% reflecting both a 19% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Corporate-Level Activity

(In millions, except percentages)	Three Months Ended June 30, 2006	2005	Percentage Change	Twelve Months Ended June 30, 2006	2005	Percentage Change
Corporate-level expenses	**$1,454**	$1,820	(20)%	**$5,026**	$5,910	(15)%

Certain corporate-level expenses are not allocated to our segments. Those expenses primarily include corporate operations related to broad-based sales and marketing, product support services, human resources, legal, finance, information technology, corporate development and procurement activities, research and development and other costs, and legal settlements and contingencies.

Fourth Quarter

Corporate-level expenses decreased primarily reflecting a $379 million decrease in costs for legal settlements and legal contingencies. During the quarter, we incurred $408 million in legal charges primarily as a result of the €281 million ($351 million) fine imposed by the European Commission in July 2006 related to its 2004 decision in its competition law investigation of Microsoft. We incurred $787 million in legal charges during the fourth quarter of fiscal year 2005 primarily related to antitrust and competition law claims, including $626 million for a settlement with IBM. Headcount-related costs increased 9% reflecting both a 23% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation.

Full Fiscal Year

Corporate-level expenses decreased primarily reflecting a $991 million decrease in costs for legal settlements and legal contingencies partially offset by an $84 million increase in headcount-related costs. We incurred $1.32 billion in legal charges during the twelve months ended June 30, 2006 including settlement expense of $361 million related to our settlement with RealNetworks, Inc. as well as other intellectual property and antitrust matters, and the European Commission fine of €281 million ($351 million), as compared to $2.31 billion in legal charges incurred during the prior year primarily related to settlements with Novell, Inc., Gateway, IBM, and other antitrust and competition law matters. Headcount-related costs increased 5% during the twelve months ended June 30, 2006 reflecting both a 23% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation.

Cost of Revenue

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Cost of revenue	**$2,130**	$1,388	53%	**$7,650**	$6,031	27%
As a percent of revenue	**18%**	14%	4ppt	**17%**	15%	2ppt

Cost of revenue includes manufacturing and distribution costs for products sold and programs licensed, operating costs related to product support service centers and product distribution centers, costs incurred to support and maintain Internet-based products and services, and costs associated with the delivery of consulting services. Cost of revenue increased mainly due to a $682 million and a $1.64 billion increase, respectively, in Home and Entertainment in the fourth quarter and the twelve months ended June 30, 2006 as a result of an increase in the number of total Xbox consoles sold and higher Xbox 360 unit costs. The remaining increase in cost of revenue for the three months ended June 30, 2006 was due to an increase in costs associated with MSN's Internet data centers.

Research and Development

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Research and development	**$1,861**	$1,664	12%	**$6,584**	$6,097	8%
As a percent of revenue	**16%**	16%	—ppt	**15%**	15%	—ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related costs associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Research and development costs increased during the three and twelve months ended June 30, 2006 primarily due to increased product development costs associated with new and upcoming offerings such as MSN adCenter, Microsoft Office 2007, Windows Vista, Xbox 360, and corporate research activities. Headcount-related costs increased 8% and 3%, respectively, during the three and twelve months ended June 30, 2006 reflecting both a 17% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Sales and Marketing

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Sales and marketing	**$2,822**	$2,707	4%	**$9,818**	$8,563	15%
As a percent of revenue	**24%**	27%	(3)ppt	**22%**	22%	—ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense and other headcount-related costs associated with sales and marketing personnel and advertising, promotions, trade shows, seminars, and other programs. Sales and marketing expenses increased during the three and twelve months ended June 30, 2006 primarily due to increased headcount-related costs, investments in partner marketing and product launch-related spending. Headcount-related costs increased 14% and 13%, respectively, during the three and twelve months ended June 30, 2006 reflecting both a 20% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

General and Administrative

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
General and administrative	**$1,110**	$1,413	(21)%	**$3,758**	$4,536	(17)%
As a percent of revenue	**9%**	14%	(5)ppt	**8%**	11%	(3)ppt

General and administrative costs include payroll, employee benefits, stock-based compensation expense and other headcount-related costs associated with finance, legal, facilities, certain human resources, other administrative headcount, and legal and other administrative fees. General and administrative costs decreased primarily reflecting decreased costs for legal settlements and legal contingencies. Legal charges decreased $379 million and $991 million, respectively, during the three and twelve months ended June 30, 2006. During the fourth quarter of fiscal year 2006, we incurred $408 million in legal charges primarily as a result of the €281 million ($351 million) fine imposed by the European Commission in July 2006 related to its 2004 decision in its competition law investigation of Microsoft. We incurred $787 million in legal charges during the fourth quarter of fiscal year 2005 primarily related to antitrust and competition law claims, including $626 million for a settlement with IBM. We incurred $1.32 billion in legal charges during the twelve months ended June 30, 2006 including settlement expense of $361 million related to our settlement with RealNetworks, Inc. as well as other intellectual property and antitrust matters, and the European Commission fine, as compared to $2.31 billion in legal charges incurred during the prior year primarily related to settlements with Novell, Inc., Gateway, IBM, and other antitrust and competition law matters. Headcount-related costs increased 9% and 7%, respectively, during the three and twelve months ended June 30, 2006 reflecting both an 18% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

Investment Income and Income Taxes

Investment Income

Fourth Quarter

The components of investment income and other are as follows:

(In millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Change
Dividends and interest	**$ 383**	$354	$ 29
Net gains/(losses) on investments	**(144)**	361	(505)
Net gains on derivatives	**8**	156	(148)
Income from equity investees and other	**130**	1	129
Investment income and other	**$ 377**	$872	$ (495)

For the three months ended June 30, 2006, dividends and interest income increased due to higher interest rates received on our fixed income investments, partially offset by a decline in the average balance of dividend and interest-bearing investments as a result of stock repurchases.

For the three months ended June 30, 2006, net recognized gains/(losses) on investments were comprised of net gains on sales of equity investments, net losses on sales of fixed income investments and other-than-temporary impairments on both equity and fixed income investments. Net recognized losses increased for the three months ended June 30, 2006 primarily due to higher impairments and net losses on sales of fixed income investments in the current period and lower net gains on sales of equity investments as compared to the prior period. For the three months ended June 30, 2006, other-than-temporary impairments were $317 million as compared to $20 million for the three months ended June 30, 2005. Investments are considered to be impaired when a decline in fair value is judged to be other than temporary.

We use derivative instruments to manage exposures to interest rates, equity prices, and foreign currency markets and to facilitate portfolio diversification. Net gains on derivatives are as follows:

(In millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Change
Net gains on equity derivatives	**$ 78**	$ 80	$ (2)
Net gains/(losses) on commodity derivatives	**36**	(20)	56
Net gains/(losses) on interest rate derivatives	**(16)**	12	(28)
Net gains/(losses) on foreign exchange contracts	**(90)**	84	(174)
Net gains on derivatives	**$ 8**	$ 156	$ (148)

During the three months ended June 30, 2006, we experienced lower net gains on derivatives as compared to the comparable period in the prior year primarily reflecting net losses in time value on foreign exchange contracts used to hedge anticipated foreign currency revenues and net losses on interest rate derivative contracts. These losses were partially offset by net gains on commodity positions in the current period driven by increases in the related commodity indices.

The net gains on equity derivatives for the three months ended June 30, 2006 are primarily due to changes in time value of derivatives designated as fair value hedges. Gains and losses arising from non-designated derivatives are economically offset by unrealized losses and gains, respectively, in the underlying securities which are recorded as a component of other comprehensive income. Commodity derivatives are held for the purpose of portfolio diversification. Net losses related to foreign currency contracts relate primarily to changes in time value of options used to hedge anticipated foreign currency revenues. Additionally, net gains and losses on foreign exchange contracts include the changes in the fair value of derivatives used as economic hedges. These gains and losses are partially offset economically by unrealized losses and gains, respectively, in the underlying assets which are included in other comprehensive income.

Income from equity investees and others includes a $147 million gain related to NBC Universal, Inc.'s ("NBC") decision to exercise its option to buy our remaining 18% interest in MSNBC Cable L.L.C. ("CJV"). In the second quarter of fiscal year 2006, Microsoft and NBC entered into an agreement that restructured their joint venture relationships for CJV and MSNBC Interactive News, L.L.C. ("IJV"). As a result, Microsoft divested 32% of CJV for $331 million and NBC acquired the right, exercisable in the following two years, to buy the remaining 18% interest. In addition, Microsoft and NBC modified their agreements to grant to IJV a U.S. content license and to remove the exclusivity obligation on both NBC and Microsoft for local and non-U.S. news content. As part of the MSNBC restructuring agreements, Microsoft paid a fee of $200 million to effectively terminate IJV's prior content license agreement and Microsoft prepaid the remaining $14 million license fee to NBC. Microsoft's sale of its 32% investment in CJV resulted in a recognized gain of $248 million in the second quarter of fiscal year 2006. Microsoft also recognized a loss as a result of the effective termination of IJV's license agreement of $200 million in the second quarter of fiscal year 2006.

Full Fiscal Year

(In millions)	Twelve Months Ended June 30, 2006	2005	Change
Dividends and interest	**$1,510**	$1,460	$ 50
Net gains on investments	**161**	856	(695)
Net losses on derivatives	**(99)**	(262)	163
Income from equity investees and other	**218**	13	205
Investment income and other	**$1,790**	$2,067	$ (277)

For fiscal year 2006, dividends and interest income increased due to higher interest rates received on our fixed income investments, partially offset by a decline in the average balance of dividend and interest-bearing investments as a result of the $32.64 billion special dividend paid on December 2, 2004 and stock repurchases made throughout fiscal year 2006.

For fiscal year 2006, net recognized gains on investments were comprised of net gains on sales of equity investments, net losses on sales of fixed income investments and other-than-temporary impairments on both equity and fixed income investments. Net recognized gains decreased in fiscal year 2006 primarily due to increased losses on sales of fixed income investments, higher other-than-temporary impairments and fewer net gains on equity investments in the current period as compared to fiscal year 2005. For fiscal year 2006, other-than-temporary impairments were $408 million, as compared to $152 million in fiscal year 2005. Investments are considered to be impaired when a decline in fair value is judged to be other than temporary.

We use derivative instruments to manage exposures to interest rates, equity prices, and foreign currency markets and to facilitate portfolio diversification. Net losses on derivatives are as follows:

(In millions)	Twelve Months Ended June 30, 2006	2005	Change
Net gains/(losses) on equity derivatives	**$ 192**	$(202)	$ 394
Net gains on commodity derivatives	**101**	46	55
Net losses on interest rate derivatives	**(79)**	(53)	(26)
Net losses on foreign exchange contracts	**(313)**	(53)	(260)
Net losses on derivatives	**$ (99)**	$(262)	$ 163

During fiscal year 2006, we experienced lower net losses on derivatives as compared to fiscal year 2005 primarily due to net gains on non-designated equity derivatives in the current fiscal year as compared to net losses in the prior fiscal year and higher net gains on commodity positions in the current fiscal year driven by increases in the related commodity indices.

This was partially offset by higher net losses in time value on foreign exchange contracts used to hedge anticipated foreign currency revenues and higher net losses on interest rate derivative contracts.

The net gains on equity derivatives during fiscal year 2006 are primarily due to changes in the market value of non-designated equity derivatives. Gains and losses arising from non-designated derivatives are economically offset by unrealized losses and gains, respectively, in the underlying equity securities which are recorded as a component of other comprehensive income. Commodity derivatives are held for the purpose of portfolio diversification. Net losses related to foreign currency contracts relate primarily to changes in time value of options used to hedge anticipated foreign currency revenues. Additionally, net gains and losses on foreign exchange contracts include the changes in the fair value of derivatives used as economic hedges. These gains and losses are partially offset economically by unrealized losses and gains, respectively, in the underlying assets which are included in other comprehensive income.

Income Taxes

Our effective tax rate for the fourth quarter of fiscal year 2006 was 34% and for full fiscal year 2006 was 31%. The increased rate for the fourth quarter resulted primarily from the European Commission fine of €281 million ($351 million) which is not tax deductible. During the second quarter of fiscal 2006, we recorded a tax benefit of $108 million from the resolution of state audits. Our effective tax rate for the fourth quarter of fiscal year 2005 was 4% and for full fiscal year 2005 was 26%. The decreased rate for the fourth quarter and full year resulted primarily from the reversal of $776 million of previously accrued taxes upon settling an Internal Revenue Service examination for fiscal year 1997 – 1999 and a tax benefit of $179 million generated by the decision to repatriate foreign subsidiary earnings under a temporary incentive provided by the American Jobs Creation Act of 2004.

Financial Condition

Cash and equivalents and short-term investments totaled $34.16 billion and $37.75 billion as of June 30, 2006, and 2005, respectively. Equity and other investments were $9.23 billion and $11.00 billion as of June 30, 2006, and 2005, respectively. The investment portfolio consists primarily of fixed-income securities, diversified among industries and individual issuers. Our 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 facilitate rapid deployment for immediate cash needs. As a result of the special dividend paid in the second quarter of fiscal year 2005 and shares repurchased, our retained deficit, including accumulated other comprehensive income, was $18.90 billion at June 30, 2006. Our retained deficit is not expected to impact our future ability to operate or pay dividends given our continuing profitability and strong cash and financial position.

Unearned Revenue

Unearned revenue from volume licensing programs represents customer billings, paid either upfront or annually at the beginning of each billing coverage period, that are accounted for as subscriptions with revenue recognized ratably over the billing coverage period. For certain other licensing arrangements revenue attributable to undelivered elements, including free post-delivery telephone support and the right to receive unspecified upgrades/enhancements of Microsoft Internet Explorer on a when-and-if-available basis, is based on the sales price of those elements when sold separately and is recognized ratably on a straight-line basis over the life cycle of the related product. Other unearned revenue includes services, TV Platform, Microsoft Business Solutions, and advertising and subscription services for which we have been paid upfront and earn the revenue when we provide the service or software or otherwise meet the revenue recognition criteria.

The components of unearned revenue were as follows:

(In millions)	June 30, 2006	March 31, 2006	June 30, 2005
Volume licensing programs	**$ 7,661**	$ 5,743	$6,000
Undelivered elements	**2,066**	2,110	2,119
Other	**1,175**	1,048	1,048
Unearned revenue	**$10,902**	$ 8,901	$9,167

Unearned revenue by segment was as follows:

(In millions)	June 30, 2006	March 31, 2006	June 30, 2005
Client	**$ 2,850**	$ 2,662	$2,687
Server and Tools	**3,792**	3,033	3,048
Information Worker	**3,609**	2,593	2,814
Other segments	**651**	613	618
Unearned revenue	**$10,902**	$ 8,901	$9,167

Unearned revenue as of June 30, 2006 increased $2.00 billion from March 31, 2006, reflecting additions to unearned revenue from multi-year licensing that outpaced recognitions by $1.92 billion, a $44 million decrease in revenue deferred for undelivered elements, and a $127 million increase primarily in unearned revenue for services and subscription services. Unearned revenue as of June 30, 2006 increased $1.74 billion from June 30, 2005, reflecting additions to unearned revenue from multi-year licensing that outpaced recognitions by $1.66 billion, a $53 million decrease in revenue deferred for undelivered elements, and a $127 million increase primarily in unearned revenue for services and subscription services.

The following table outlines the expected recognition of $10.9 billion of unearned revenue as of June 30, 2006:

(In millions)	Recognition of Unearned Revenue
Three months ended:	
September 30, 2006	**$ 3,483**
December 31, 2006	**2,687**
March 31, 2007	**1,899**
June 30, 2007	**1,069**
Thereafter	**1,764**
Unearned revenue	**$ 10,902**

Cash Flows

Our cash and short-term investments balance of $34.16 billion remained relatively flat from March 31, 2006 and decreased $3.59 billion from June 30, 2005 primarily due to increased stock repurchases. For the three months ended June 30, 2006, cash flows from operations of $3.28 billion and cash flows from investing of $3.74 billion were partially offset by common stock repurchases of $3.98 billion and cash paid for dividends of $0.92 billion. For the twelve months ended June 30, 2006, cash flows from operations of $14.40 billion and cash flows from investing of $8.00 billion were partially offset by financing activities, including common stock repurchases of $19.21 billion, cash paid for dividends of $3.55 billion, and common stock issued of $2.10 billion.

Changes to Financial Reporting Structure

On July 17, 2006, we issued a press release announcing that effective the first quarter of fiscal year 2007, we will report our businesses under five operating segments, reflecting completion of the previously announced changes in our organizational structure and how we will manage our business beginning in fiscal year 2007. Each of the five segments will be organized under one of the three operating divisions announced earlier in fiscal year 2006:

- Microsoft Platforms and Services Division
- Microsoft Business Division
- Microsoft Entertainment and Devices Division

The five operating segments are described below. The first three of these will comprise the Microsoft Platforms and Services Division.

Client will include the former Client segment.

Server and Tools will include the former Server and Tools segment, excluding the Exchange Server business and certain client access licenses ("CAL") related to products residing in the Microsoft Business Division.

Online Services Group will include the former MSN segment and Windows Live.

Microsoft Business Division will include the former Information Worker and Microsoft Business Solutions segments, as well as the Exchange Server business and certain CAL, formerly reported in the Server and Tools segment.

Microsoft Entertainment and Devices Division will include the former Home and Entertainment and Mobile and Embedded Devices segments.

Financial segment information prepared on a basis consistent with that used in our Management's Discussion and Analysis section of our periodic reports for the fourth quarter and the full fiscal year, as if reported under the new operating segments, follows:

(In millions, except percentages)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Percentage Change	Twelve Months Ended June 30, 2006	Twelve Months Ended June 30, 2005	Percentage Change
Revenue						
Client	$ 3,376	$ 3,014	12%	$13,209	$12,151	9%
Server and Tools	2,690	2,245	20%	9,653	8,370	15%
Online Services Group	580	598	(3)%	2,299	2,344	(2)%
Microsoft Business Division	3,908	3,637	7%	14,488	13,520	7%
Entertainment and Devices	1,250	667	87%	4,633	3,403	36%
Total revenue	$11,804	$10,161	16%	$44,282	$39,788	11%
Operating Income / (Loss)						
Client	$ 2,504	$ 2,172	15%	$10,182	$ 9,403	8%
Server and Tools	903	479	89%	3,017	2,109	43%
Online Services Group	(190)	101	(288)%	(77)	411	(119)%
Microsoft Business Division	2,544	2,285	11%	9,675	9,116	6%
Entertainment and Devices	(437)	(235)	86%	(1,337)	(607)	120%
Corporate-Level Activity	(1,443)	(1,813)	(20)%	(4,988)	(5,871)	(15)%
Total operating income	$ 3,881	$ 2,989	30%	$16,472	$14,561	13%

To: All Employees
Subject: Fiscal Year 2006 - Fourth Quarter Financial Results

Today, the company announced our **fourth quarter and fiscal year 2006 earnings**. We capped off **a year of accelerating revenue growth** with Q4 revenue of $11.8 billion, a 16% increase over results in the same period of the prior year. Net income for the fourth quarter was $2.8 billion and diluted earnings per share were $0.28, which included $0.03 of certain legal charges.

Revenue growth this quarter **was the fastest quarterly growth rate in over two years** and was driven by broad-based demand across all customer segments, channels, and regions. **Strong consumer demand for Xbox 360** drove Home and Entertainment revenue growth of 94%. Server and Tools delivered its **16th consecutive double digit quarter** driven by SQL Server revenue growth in excess of 35%. **Client** revenue grew 12% fueled by robust, double digit PC market growth. And finally, I want to give particular congratulations to the teams at **MED** and **MBS** who grew 41% and 16%, respectively, and achieved annual operating profitability for the first time ever.

We **completed our $30 billion stock buyback program announced two years ago**. With this milestone achieved, our Board has authorized a **$20 billion tender offer** scheduled to be completed on August 17, as well as authorization for up to **an additional $20 billion ongoing share repurchase program** with an expiration of June 2011.

Earnings Information

The full earnings release is included below and all of the related financial materials are available on the Investor Relations website at http://www.microsoft.com/msft/.

The quarterly earnings conference call with financial analysts will take place today from 2:30 - 3:30 p.m. Pacific Time. The call will be webcast live on the CorpNet and Internet. Employees can listen at our Investor Relations website: http://www.microsoft.com/msft/. An on-demand webcast will be available for a full year.

Tender Information

Please visit: http://micronews/MicroNews/Articles/2006/July/07-20LiddellEarningsQA.mspx

Employee shareholders who have questions about the tender offer or need assistance may contact our information agent, Georgeson Inc., at (866) 482-5026 in the US and Canada or + 44 (0) 207 019 7137 internationally.

Breakfast Series

I would also like to invite you to attend the **Breakfast Series: The Word From Wall Street on July 28th.** Colleen Healy, General Manager of Microsoft Investor Relations, and I will host Charles DiBona of Sanford C. Bernstein & Co., and Dylan Yolles of Capital Research & Management Company. For more information, and to register, please go to http://breakfastseries.

Microsoft Reports Fourth Quarter Results and Announces Share Repurchase Program

Microsoft delivers strong finish to fiscal year with 16% fourth quarter revenue growth;
Announces $20 billion tender offer

REDMOND, Wash. — July 20, 2006 — Microsoft Corp. today announced record fourth quarter revenue of $11.80 billion for the period ended June 30, 2006, a 16% increase over the same quarter of the prior year. Operating income for the quarter was $3.88 billion, a 30% increase compared with $2.99 billion in the prior year period. Operating income for the fourth quarter included certain legal charges of $351 million, compared with $756 million in the prior year period. Net income for the fourth quarter was $2.83 billion and diluted earnings per share were $0.28, which included $0.03 of certain legal charges. For the same quarter of the previous year, net income was $3.70 billion and diluted earnings per share were $0.34, which included $0.05 of certain legal charges and $0.09 of tax benefits.

For the fiscal year ended June 30, 2006, the company announced revenue of $44.28 billion, an 11% increase over the prior year. Operating income for the fiscal year was $16.47 billion, or 13% over the prior year period. Operating income for the fiscal year included $1.11 billion for certain legal charges, compared with $2.06 billion in the prior year period. Net income for the fiscal year was $12.60 billion and diluted earnings per share were $1.20, which included $0.08 of certain legal charges and $0.01 of tax benefits. For the previous fiscal year, net income and diluted earnings per share were $12.25 billion and $1.12, which included $0.13 of certain legal charges and $0.09 of tax benefits.

“We delivered a very strong finish to the fiscal year highlighted by customer demand for our recently launched products of Xbox 360™, SQL Server™ 2005, Visual Studio® 2005 and Microsoft Dynamics™ CRM 3.0, which fueled a combined 31% revenue growth of their business groups for the quarter,” said Chris Liddell, chief financial officer of Microsoft. “Our upcoming launches of Windows Vista™, the 2007 Microsoft® Office system, Exchange Server 2007, and other key products position us to continue to deliver strong revenue growth in fiscal year 2007. We are also very pleased that both the Microsoft Business Solutions and the Mobile and Embedded Devices businesses achieved profitability for the full fiscal year.”

The company also announced that its board of directors has authorized new share repurchase programs, comprising a $20 billion tender offer scheduled to be completed on August 17, 2006, as well as authorization for up to an additional $20 billion ongoing share repurchase program with an expiration of June 30, 2011. Furthermore, the company also announced today that it completed its previously announced $30 billion stock repurchase program.

“With our share repurchase programs announcement today, we reaffirm our confidence and optimism in the long term future of the company and continue to execute on our strategy of returning capital to shareholders,” said Liddell.

Business Highlights

Revenue and operating income growth for the quarter were driven by broad-based strength in both business and consumer customer segments. Server and Tools delivered 18% revenue growth for the quarter, fueled by an increase of over 35% revenue growth for SQL Server. Healthy Client revenue was driven by continued growth in the PC market as well as improvements in its commercial and retail licensing results. The Microsoft Dynamics CRM 3.0 product continues to show robust customer acceptance, adding more than fifty thousand seats during the quarter, while licenses for Windows Mobile®-based phones grew by 90% in fiscal year 2006.

"The results for this fiscal year highlight the value and even greater satisfaction our customers are experiencing with our new products as we kicked off our multi-year product cycle," said Kevin Turner, chief operating officer at Microsoft. "We are also seeing fantastic momentum in multi-year licensing growth as customer excitement for upcoming product releases drove higher than expected annuity sales and unearned revenue growth."

Microsoft returned over $5 billion to shareholders in the form of dividends and share repurchases during the quarter, and returned over $23 billion to shareholders this fiscal year.

Business Outlook

Microsoft management offers the following guidance for the quarter ending September 30, 2006:

- Revenue is expected to be in the range of $10.6 billion to $10.8 billion.
- Operating income is expected to be in the range of $4.0 billion to $4.2 billion.
- Diluted earnings per share are expected to be $0.30 to $0.32.

Management offers the following guidance for the full fiscal year ending June 30, 2007:

- Revenue is expected to be in the range of $49.7 billion to $50.7 billion.
- Operating income is expected to be in the range of $18.9 billion to $19.4 billion.
- Diluted earnings per share are expected to be in the range of $1.43 to $1.47.

Tender Offer Details

Under the terms of the tender offer, the company will repurchase up to $20 billion of its common stock at a price per share not greater than $24.75 and not less than $22.50. This represents the repurchase of up to 808,080,808 shares of common stock, or about 8.1% of the common shares outstanding. The tender offer is expected to commence on July 21, 2006 and to expire, unless extended, at 12:00 midnight, Eastern Time, on August 17, 2006. A modified “Dutch auction” will allow shareholders to indicate how many shares and at what price within the company’s specified range they wish to tender. Based on the number of shares tendered and the prices specified by the tendering shareholders, the company will determine the lowest price per share within the range that will enable it to purchase up to 808,080,808 company shares, or such lesser number of shares as are properly tendered. The company will not purchase shares below a price stipulated by a shareholder, and in some cases, may actually purchase shares at prices above a shareholder’s indication under the terms of the modified “Dutch auction.” Specific instructions and a complete explanation of the terms and conditions of the tender offer are contained in the Offer to Purchase and related materials that will be mailed to shareholders of record beginning on July 24, 2006.

Microsoft’s directors and executive officers have advised Microsoft that they do not intend to tender any of their shares in the tender offer.

Goldman Sachs and Deutsche Bank will serve as co-dealer managers for the tender offer. Georgeson Inc. will serve as information agent and Mellon Investor Services will serve as the depositary.

This press release is for informational purpose only and is not an offer to buy or the solicitation of an offer to sell any shares of the company's common stock. The solicitation of offers to buy the company's common stock will only be made pursuant to the Offer to Purchase and related materials that the company will send to its shareholders. Shareholders should read those materials carefully because they will contain important information, including the various terms and conditions of the tender offer. Shareholders will be able to obtain copies of the Offer to Purchase, related materials filed by the company as part of the statement on Schedule "TO" and other documents filed with the Securities and Exchange Commission through the Commission's internet address at http://www.sec.gov without charge when these documents become available. Shareholders and investors may also obtain a copy of these documents, as well as any other documents the company has filed with the Securities and Exchange Commission, without charge, from the company or at the Investor Relations section of the company's website: www.microsoft.com. Shareholders are urged to carefully read these materials prior to making any decision with respect to the offer. Shareholders and investors who have questions or need assistance may call Georgeson Inc. at (866) 482-5026 in the United States and Canada, and +44 (0) 207 019 7137 for all other countries.

Webcast Details

Microsoft will hold an audio webcast at 2:30 p.m. PDT (5:30 p.m. EDT) today with Chris Liddell, senior vice president and chief financial officer, Frank Brod, corporate vice president and chief accounting officer, and Colleen Healy, general manager of Investor Relations, to discuss details of the company's performance for the quarter and certain forward-looking information. The session may be accessed at http://www.microsoft.com/msft. The webcast will be available for replay through the close of business on July 20, 2007.

About Microsoft

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.

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Forward-Looking Statements

Statements in this release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

- challenges to our core business model;
- intense competition in all our markets;
- our continued ability to protect the company's intellectual property rights;
- claims that we have infringed the intellectual property rights of others;
- the possibility of unauthorized disclosure of significant portions of our source code;
- actual or perceived security vulnerabilities in our products that could reduce revenue or lead to liability;
- government litigation and regulation affecting how we design and market our products;
- our ability to attract and retain talented employees;
- delays in product development and related product release schedules;
- significant business investments that may not produce offsetting increases in revenue;
- the level of corporate spending and changes in general economic conditions that affect demand for computer hardware or software;
- adverse results in legal disputes;
- unanticipated tax liabilities;
- key component shortages and delays in Xbox 360 product delivery;
- impairment of goodwill or amortizable intangible assets causing a charge to earnings;
- changes in accounting that may affect our reported earnings and operating income;
- exposure to increased economic and regulatory uncertainties from operating a global business;
- general economic and geo-political conditions;
- natural disaster, cyber-attack or other catastrophic event disrupting our business;
- acquisitions and joint ventures that adversely affect the business;
- limitations on the availability of insurance and resulting uninsured losses;
- sales channel disruption such as the bankruptcy of a major distributor;
- implementation of operating cost structures that align with revenue growth;
- continued access to third party distribution channels for MSN®; and
- foreign currency, interest rate, fixed income, equity and commodity price risks.

For further information regarding risks and uncertainties associated with Microsoft's business, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and

"Risk Factors" sections of Microsoft's SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft's Investor Relations department at (800) 285-7772 or at Microsoft's Investor Relations website at http://www.microsoft.com/msft.

All information in this release is as of July 20, 2006. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company's expectations.

For more information, financial analysts and investors only:
Colleen Healy, general manager, Investor Relations, (425) 706-3703

For more information, press only:
Rapid Response Team, Waggener Edstrom Worldwide, (503) 443-7070, rrt@waggeneredstrom.com

Note to editors: If you are interested in viewing additional information on Microsoft, please visit the Microsoft web page at http://www.microsoft.com/presspass on Microsoft's corporate information pages. Web links, telephone numbers and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today's 2:30 p.m. PDT conference call with investors and analysts, is available at http://www.microsoft.com/msft.

Exhibit 99.5

Employee FAQ

1: What did you announce today?

A: The Company announced that its Board of Directors has authorized new share repurchase programs, comprised of a $20 billion tender offer scheduled to be completed on August 17, 2006 as well as authorization for an additional $20 billion ongoing share repurchase program to be completed with an expiration of June 30, 2011.

Furthermore, the Company announced today that it completed its previously announced $30 billion stock repurchase program.

2. How much stock is Microsoft repurchasing and through what mechanisms?

A: Under the two programs combined, the Company is authorized to repurchase up to $40 billion of the Company's common stock.

- First, we will be offering to repurchase up to $20 billion of common stock through a modified "Dutch auction" tender offer at a price range of $22.50 to $24.75 per share.
- Second, the board has authorized the repurchase of an additional $20 billion of common stock in the open market by June 30, 2011.

3. Why did you make these announcements now?

A: We decided to take this action for several reasons:

- We have completed our previously announced $30 billion repurchase program that was originally authorized two years ago today.
- The Board of Directors and senior management regularly evaluate the Company's capital needs based on the Company's outlook for it's long term profitability and ability to generate cash, its assessment of capital requirements to fund investment in future growth opportunities and manage dilution, as well as ongoing legal risks and business conditions. As a result of this analysis, the Board determined this to be the best course of action at this time.
- We're optimistic about the prospects for our financial performance and future growth across our various businesses.

4. Why did Microsoft decide to spend our cash reserves with the repurchase programs announced today?

A: The Board of Directors and management believe that the repurchase programs announced today are appropriate given our confidence in the long-term potential of the Company, our future ability to generate significant cash, and our Board's assessment of our current capital requirements which include ongoing business and legal risks and investments in future growth opportunities.

5. What is the impact of this decision on the future growth of the Company?

A: The Company is in the unique position of being able to use a significant amount of cash for the tender offer and repurchase plan we have announced AND continue to maintain sufficient cash and short term investments to fund growth opportunities. We're confident in the long-term potential of the Company and our ability to generate solid and continued earnings and cash flow growth into the future.

6. When do these changes go into effect?

A: The tender offer is expected to commence on July 21, 2006 and end on August 17, 2006, unless extended. The stock repurchase program will commence after the the tender offer is completed and has an expiration of June 30, 2011. The timing, volume and price of purchase under the ongoing program will be determined by management.

7. What are the terms of the tender offer?

A: Under the terms of the tender offer, the Company will repurchase up to $20 billion of its common stock at a price per share not less than $22.50 and not greater than $24.75. Assuming a purchase price as the high-end of the range, this represents the repurchase of 808,080,808 shares of common stock, or approximately 8.1% of the common shares outstanding.

The tender offer is expected to commence on July 21, 2006 and to expire at 12:00 midnight Eastern time on August 17, 2006, unless extended.

A modified "Dutch auction" will allow shareholders to indicate how many shares and at what price within the Company's specified range they wish to tender. Based on the number of shares tendered and the prices specified by the tendering shareholders, the Company will determine the lowest price per share within the range that will enable it to purchase up to 808,080,808 shares of the Company's common stock, or such lesser number of shares as are properly tendered.

The Company will not purchase shares below a price stipulated by a shareholder, and in some cases, may actually purchase shares at prices above a shareholder's indication under the terms of the modified "Dutch auction."

8. Can employees participate in the tender offer?

A. Most of our employees are also shareholders and can participate in the tender offer, except for our executive officers who have said that they do not intend to participate in the tender offer. Management and the Board of Directors have made no recommendation to shareholders, including employees, as to whether they should participate in the tender offer.

9: How can I participate?

A: All shareholders will be mailed information beginning on Monday, July 24, 2006. Information also can be obtained by contacting Georgeson Inc. at 1-866-482-5026 (U.S. only) or + 44 (0) 207 019 7137 (international). If you hold your stock in a brokerage account you may contact your broker. Participants in the Company's 401K will receive a communication directly from Fidelity Investments.

10. Does this affect all worldwide employees?

A: The tender offer is open to all shareholders of the Company, and any employee who holds shares may elect to participate in the tender offer if her or she so chooses. The tender offer documentation and instructions on how to participate will be mailed to all shareholders during the week of July 24, 2006. For additional information, contact Georgeson Inc. at 1-866-482-5026 (U.S. only) or
+ 44 (0) 207 019 7137 (international).

11. Is there a recommendation on whether employees should tender their shares?

A: Management and the board of directors have made no recommendation to the Company's shareholders, including employees, as to whether they should participate in the tender offer. Each shareholder should review the tender offer documentation and consult with his or her own financial and tax advisors to determine whether to participate in the tender offer.

12. What are the tax implications of a stock repurchase?

A. The tax consequences of the tender offer are complex and will differ depending upon each shareholder's particular circumstances. We strongly encourage each shareholder to read the offer document and seek tax advice before deciding whether to participate in the tender offer. Generally, U.S. shareholders whose shares are repurchased by the Company will either recognize (1) capital gain or capital loss from the sale of such shares or (2) dividend income to the extent of the gross proceeds received for such shares. Non-U.S. shareholders will generally be subject to 30% withholding tax on their gross proceeds from the repurchase.

13. How does this decision impact employees?

A: Employees who are shareholders of the Company receive the same benefits as all other shareholders of the Company.

14: Why didn't some of this money get allocated to employee compensation and benefits?

A: Due to the broad participation in equity programs most Microsoft employees are shareholders and all employees holding shares are able to participate in the tender offer.

Microsoft makes decisions annually regarding compensation and benefits budgets to ensure our compensation and benefits programs are competitive in external markets where we have employees.

15. Does this impact employee Stock Awards?

A. The tender offer applies to issued shares of Microsoft common stock, therefore unvested Stock Awards may not be tendered and are not affected. Shares issued as the result of vesting of employee Stock Awards and held by an employee are eligible to participate in the tender offer. The process for tendering shares is contained in the tender offer documentation and instructions.

16. How does a Microsoft employee who currently holds Microsoft stock options participate in the tender offer?

The tender offer only applies to issued shares of Microsoft common stock, therefore stock options may not be tendered. However, an employee who currently holds vested options may exercise those options in accordance with the terms of the Microsoft Stock Plans and tender any of the shares issued upon exercise. The process for tendering shares is contained in the tender offer documentation and instructions.

A Microsoft employee should note that an exercise of a stock option may not be revoked even if (i) the shares acquired are tendered and not purchased in the tender offer or (ii) the Microsoft employee elects to revoke his or her tender of shares. An employee who currently holds unvested options may not exercise those options until they vest and thus cannot tender the shares in the tender offer.

17. Does this impact employees that hold Microsoft stock through the ESPP program?

A: Yes, employees who hold shares that they purchased shares through the ESPP may elect to tender some or all of those shares. The process for tendering shares is contained in the tender offer documentation and instructions.

18. Does this impact employees that hold Microsoft shares in their 401(k) Plan?

A. Yes, employees who hold shares in Microsoft's 401(k) Plan (U.S. employees) may elect to tender some or all of those shares. For information concerning the procedure to tender Shares attributable to your 401(k) account, please contact a Fidelity Benefits Representative at 1-888-810-6738.

19. Does this impact any of my stock awards from the 2006 Performance Review?

A. The tender offer and repurchase plans announced today have no impact on our plans for stock awards or other aspects of compensation from the 2006 Performance Review.

This Q&A is for informational purpose only and is not an offer to buy or the solicitation of an offer to sell any shares of the Company's common stock. The solicitation of offers to buy the

Company's common stock will only be made pursuant to the Offer to Purchase and related materials that the Company will send to its shareholders. Shareholders should read those materials carefully because they will contain important information, including the various terms and conditions of the tender offer. Shareholders will be able to obtain copies of the Offer to Purchase, related materials filed by the Company as part of the statement on Schedule TO and other documents filed with the Securities and Exchange Commission through the Commission's internet address at http://www.sec.gov without charge when these documents become available. Shareholders and investors may also obtain a copy of these documents, as well as any other documents the Company has filed with the Securities and Exchange Commission, without charge, from the Company or at the Investor Relations section of the Company's Web site: www.microsoft.com. Shareholders are urged to carefully read these materials prior to making any decision with respect to the offer. Shareholders and investors who have questions or need assistance may call Georgeson Inc. at 1-866-482-5026 (U.S. only) or + 44 (0) 207 019 7137 (international).

Announced Cash Distribution Plan

Today's announcement consists of two components:

- Tender offer: Repurchase up to $20 billion of common stock at a price per share not greater than $24.75 and not less than $22.50
- Authorization for a $20 billion stock repurchase plan