

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JUNE 30, 1994

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-14278

MICROSOFT CORPORATION
(Exact name of registrant as specified in its charter)

WASHINGTON
(State or other jurisdiction of
incorporation or organization)

91-1144442
(I.R.S. Employer
Identification No.)

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399
(Address of principal executive office)(Zip Code)

Registrant's telephone number, including area code: (206) 882-8080

Securities registered pursuant to Section 12(b) of the Act: NONE

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of September 9, 1994 was \$19,715,785,692.

The number of shares outstanding of the registrant's common stock as of September 9, 1994 was 580,345,861.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1994 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

Portions of the definitive Proxy Statement dated September 27, 1994 to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held October 28, 1994 are incorporated by reference into Part III.

MICROSOFT CORPORATION
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

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PART I

Item 1. Business

GENERAL

Microsoft Corporation (the "Company" or "Microsoft") was founded as a partnership in 1975 and was incorporated in 1981. The Company operates in one business segment - the development, manufacture, marketing, licensing, and support of a wide range of software products, including operating systems for personal computers (PCs), office machines, and personal information devices; applications programs; and languages; as well as personal computer books, hardware, and multimedia products. Microsoft(R) products are available for most PCs, including Apple(R) computers and those running Intel(R) microprocessors.

Microsoft's business strategy emphasizes the development of a broad line of microcomputer software products for business and personal use, marketed through multiple channels of distribution. The Company is divided into three main groups: the Products Group; the Sales and Support Group; and the Operations Group.

The Products Group is comprised of five main divisions, each responsible for a particular area of software development, technology development, and product marketing. The Personal Operating Systems Division designs and develops operating systems for desktop PCs. The Business Systems Division is responsible for enterprise-wide computing solutions, including client-server architectures, networking products, and workgroup applications. The Desktop Applications Division creates productivity applications. The Developer Division creates database products, as well as programming language products and software development tools. The Consumer Division develops products designed for the home, school, and small business market, including multimedia consumer products and computer input devices (hardware).

Microsoft also has an Advanced Technology Division, which is involved in research of new technologies for the evolution of personal computing and the development of innovative consumer software architectures.

The Sales and Support Group is responsible for building long-term business relationships with customers. This group is aligned with one of three customer types: end users, organizations, and OEMs (original equipment manufacturers). The Sales and Support group manages the channels that serve those customers. These channels include the U.S. and Canada, Europe, Other International, and OEM. The group also provides support for the Company's products through Product Support Services, Consulting Services, and Solutions Providers.

The Operations Group is responsible for managing business operations and overall business planning. This includes the process of manufacture and delivery of finished goods, licenses, subscriptions, and fulfillment orders; the publishing efforts of Microsoft Press; and other corporate functions.

PRODUCTS

PERSONAL OPERATING SYSTEMS

The Personal Operating Systems Division develops desktop operating systems software, which controls PCs, allocates computer memory, schedules the execution of applications software, and manages the flow of information and communication among the various components of the PC. The Company's primary proprietary operating systems for PCs are: the Microsoft MS-DOS(R) operating system, the Microsoft Windows(TM) operating system, and Microsoft Windows(TM) for Workgroups.

MS-DOS: Microsoft MS-DOS is a single-user, single-tasking operating system designed for PCs that utilize Intel microprocessor chips. Since the introduction of MS-DOS on the IBM PC in 1981, the Company has enhanced MS-DOS as new technologies are developed and user needs have arisen. MS-DOS is preinstalled by OEMs on most PCs.

WINDOWS: Microsoft Windows is a graphical operating system for MS-DOS-based PCs. Microsoft Windows supports high-performance Windows-based applications, and offers ease of use and aesthetic appeal, scalable TrueType(R) fonts, built-in multimedia functionality, and straightforward integration into corporate computing environments.

WINDOWS FOR WORKGROUPS: Windows for Workgroups integrates network and workgroup functionality directly into the Windows operating system. With Windows for Workgroups, users can share files, data, and printers, with ease of access and security.

WINDOWS 95: Microsoft is developing a new personal operating system, designed to replace MS-DOS, Windows, and Windows for Workgroups as the Company's desktop operating system offering. Windows 95 will be a fully integrated 32-bit operating system, compatible with existing software applications and capable of performing as the platform for the next generation of applications, games, PCs, and peripherals.

BUSINESS SYSTEMS

The Business Systems division is focused on delivering a broad range of business solutions for organizations. The division develops and markets an integrated product line of software for creating business solutions, including operating systems for servers and workstations, as well as applications for business servers. Server applications development is divided into the areas of databases, connectivity, and workgroup applications.

WINDOWS NT: Microsoft Windows NT Workstation is a 32-bit, multithreaded operating system for client-server computing. It is capable of running on Intel 386, 486, and Pentium(TM) systems and exploiting the next generation of microprocessor systems, including most RISC architectures and multiprocessor systems. Windows NT has the power to serve as a business workstation to integrate client-server business applications with existing Windows-based desktop applications or as a technical workstation to run high-end engineering or scientific applications. The operating system provides integrated mail and networking with remote access, pre-emptively scheduled multitasking, and support for background communication sessions. Windows NT also provides for the automatic migration of information from previously installed versions of Windows. The Windows NT(TM) Server, in addition to the features of Windows NT Workstation, provides extensive network management features, administration tools, support for Macintosh(R) clients, and fault tolerance. It is a platform for database, communications, and mail servers.

SQL SERVER: The Company also offers Microsoft SQL Server. Originally developed cooperatively by Microsoft and Sybase, Inc., SQL Server is a high-performance relational database management system for client-server architectures and personal computer local area networks. SQL Server supports the Structured Query Language, which is a commonly used language through which application programs communicate with relational databases. The Company provides SQL Server for Windows NT and SQL Server for OS/2.

LAN MANAGER: The Company also markets Microsoft LAN Manager, which is a network operating system offering the user the ability to run applications, share files and devices, and perform remote processing in a true client-server computing environment, from MS-DOS, Windows, or Microsoft Operating System/2 (MS(R) OS/2) workstations. LAN Manager runs on MS OS/2, UNIX Systems, and VAX VMS systems. LAN Manager clients and servers can interoperate in a network with Windows NT, Windows NT Server, and Windows for Workgroup systems.

MICROSOFT MAIL: The Company markets Microsoft Mail for PC networks. Microsoft Mail includes client software for the Microsoft Windows, MS-DOS, Macintosh, and OS/2 platforms. In addition, this workgroup application offers large, corporate users support for multiple network environments. A companion product, Microsoft Mail for AppleTalk(R) networks, is used by companies with Macintosh servers. Microsoft Mail Remote for Windows offers software for remote clients used by travelers or those working at home to stay in touch with the office mail system.

SCHEDULE+: In 1992, the Company introduced the first of its workgroup applications to take advantage of the Microsoft Mail messaging system, Microsoft Schedule+. Schedule+ is a calendaring and scheduling program that helps individuals and groups manage their time and resources. The program searches other workgroup members' schedules to determine meeting availability times, provides invitees the means to accept, decline, or tentatively accept invitations to meetings, and automatically notifies attendees if a meeting is canceled or rescheduled.

MICROSOFT AT WORK: The Company announced a new architecture which focuses on making digital office machines more functional and easier to use while creating digital connections between office machines to allow information to flow freely among many device types throughout the workplace. The Microsoft At Work(TM) software components are planned to be incorporated into office devices, making these products easier to use, compatible with one another and compatible with PCs running the Microsoft Windows operating system. Partners in the Microsoft At Work initiative include more than 70 companies representing the office automation, communications, and computer industries.

DESKTOP APPLICATIONS SOFTWARE

The Desktop Applications Division develops applications software, which provides the microcomputer with instructions for the performance of end user tasks. The Company's desktop applications software is designed for use by a broad class of end users, regardless of business, industry, or market segment. Primary examples of desktop applications software are word processing, spreadsheet, and presentation graphics programs. The Company's desktop applications programs are developed principally for Windows and Macintosh operating systems.

MICROSOFT OFFICE

Microsoft Office is a suite of software products featuring seamless integration of the most commonly used desktop applications. The Company's suite of products is based upon a document-centric concept, with common commands and extensive use of object linking and embedding (OLE) cross-application capabilities. Microsoft Office comes in two editions, Standard and Professional. The Standard Edition includes Microsoft Word, Microsoft Excel, the Microsoft PowerPoint(R) presentation graphics program, and a workstation license for Microsoft Mail. The Standard Edition is available for Windows and Macintosh operating systems. The Microsoft Office Professional Edition for Windows adds the Microsoft Access(R) database.

WORD PROCESSING

The Company's word processing program is Microsoft Word. Microsoft Word for the MS-DOS operating system was introduced in 1983. Since its first release, Microsoft Word has been enhanced with innovations that make it easier for users to do everyday word processing tasks. Microsoft Word for Windows provides all the features that users of word processing products expect in the Windows graphical environment, plus the ability to handle graphics, tables, spreadsheet data, charts, and images imported from other Windows-based software programs. The Company also has a version for the Macintosh operating system.

SPREADSHEETS

The Company's spreadsheet program is Microsoft Excel, which is available for the Windows and Macintosh operating systems. It is an integrated spreadsheet with database and business graphics capabilities. Microsoft Excel allows full linking and embedding of objects that permits users to view and edit graphics or charts from other Windows-based programs from the worksheet in which the object is stored. Microsoft Excel graphics capabilities can be linked to its spreadsheets to allow simultaneous changes to charts as changes are made to the spreadsheets. Microsoft Excel was first introduced in 1985 for the Apple Macintosh. Microsoft Excel for Windows was introduced in 1987.

GRAPHICS

Microsoft PowerPoint is a presentation graphics program for producing slides, transparencies, overheads, and prints. The Company markets versions of PowerPoint for Microsoft Windows and the Macintosh.

PROJECT MANAGEMENT

Microsoft Project is a critical path project scheduling and resource allocation program that runs on Windows and Macintosh operating systems. The product can perform as a budgeting, monitoring, and cost estimating tool for large business projects and as a critical path and schedule planning tool.

DEVELOPER PRODUCTS

The Developer Division provides software development tools, database products, and technical information to Windows developers worldwide. These products and services help independent software developers, corporate developers, solutions developers, and hobbyists create a wide variety of applications, primarily for Windows and Windows NT.

DATABASE PRODUCTS

Database products control the maintenance and utilization of structured data organized into a set of records or files. The Company offers database products which span the needs of individual users up to large corporations. These products include Microsoft Access, Microsoft FoxPro(R), Microsoft SQL Server, and a variety of database connectivity technologies. Microsoft Access is a relational database management application, also offered in conjunction with Microsoft Office, which provides access to structured business data. Microsoft FoxPro is a desktop database development tool which is compatible with the industry standard xBase development language. FoxPro supports xBase applications on MS-DOS, Windows, Windows NT, Macintosh, and UNIX. The Open Database Connectivity (ODBC) product provides access and connectivity to read and write to various databases from other computer industry vendors from within Microsoft Windows applications.

SOFTWARE DEVELOPMENT TOOLS AND COMPUTER LANGUAGES

Software development tools and computer languages allow software developers to write programs in a particular computer language and translate programs into a binary machine-readable set of commands that activate and instruct the hardware. The Company develops and markets a number of software development environments, language compilers, and software testing tools. In 1994, the Company shipped Microsoft Visual C++(TM) development system for 16 and 32-bit application development on Windows and Windows NT. The Microsoft Visual Basic(TM) programming system for the Windows operating system provides easy access to a wide variety of data sources by integrating the Microsoft Access database engine and the ability to leverage investments in commercial applications through OLE 2.0. Additionally, the Company offers professional, highly-integrated development environments in the Assembly and FORTRAN languages for MS-DOS, Windows, and Windows NT.

DEVELOPER INFORMATION PRODUCTS

The Company supplies software developers with technical and support information which is critical for successful development on Windows and Windows NT. Developers subscribe to the Microsoft Developer Network (MSDN) information service and receive quarterly updates on CD-ROMs, magazines, and electronically via several on-line information services.

CONSUMER PRODUCTS

The Microsoft Consumer division develops and markets useful, enjoyable, and fundamental software and services for small businesses, schools, and homes. The division is developing a synergistic product line focusing on several categories of home software usage, including Personal Tools, Personal Transactions, Family Reference/Information, Lifestyle, Entertainment, and Kids. Many of the Family Reference/Information and Lifestyle titles are available on CD-ROM. The Consumer division is also responsible for hardware input devices such as the Microsoft Mouse and the Microsoft BallPoint Mouse.

PERSONAL TOOLS

The Company's leading Personal Tools products are Microsoft Works and Microsoft Publisher. The Company markets versions of Microsoft Works that run on the Windows, MS-DOS, and Macintosh operating systems. Microsoft Works is an integrated software program that contains word processing with spell-checking and thesaurus; spreadsheet with charting; and database with reporting capabilities. Microsoft Works allows the easy exchange of information from one tool to another. A large percentage of Microsoft Works is licensed through the OEM channel in addition to the finished goods channels. Microsoft Publisher is an easy-to-use, entry-level desktop publishing tool for the Windows operating system. Publisher features PageWizards(TM) design assistants, an interactive tool that automates the design process of 12 custom publications, including newsletters, calendars, greeting cards, and invitations.

PERSONAL TRANSACTIONS

Microsoft Money is a financial organization product that provides the user with a variety of features for tracking personal or business expenses. Introduced in 1991, Microsoft Money runs on the Windows operating system and provides easy tracking of account balances, income, and expenses, as well as quick reporting and charting of financial information.

FAMILY REFERENCE/INFORMATION

Reference and information titles include Microsoft Encarta(TM) and Microsoft Bookshelf(R), which are both available for Windows and Macintosh operating systems. The Encarta multimedia encyclopedia database blends 9 million words of text in 26,000 articles with a wealth of innovative, interactive information presented through animations, videos, maps, charts, sounds, and pictures. Bookshelf is a multimedia reference library for the desktop PC that integrates seven well-respected and authoritative works on one compact disc. As a source of general reference information, Bookshelf includes a dictionary, world atlas, world almanac, thesaurus, concise encyclopedia, and two books of quotations.

LIFESTYLE

Lifestyle titles include Microsoft Dinosaurs, Microsoft Dangerous Creatures, Microsoft Ancient Lands, and Microsoft Cinemania(TM), an interactive guide to the movies with entries for 19,000 films. Musical titles include Microsoft Beethoven: The Ninth Symphony, Microsoft Stravinsky: The Rite of Spring, Microsoft Mozart: Dissonant Quartet, Microsoft Multimedia Strauss for Windows, and Microsoft Musical Instruments.

ENTERTAINMENT

The Company also has a line of entertainment products. The Company has marketed Microsoft Flight Simulator(TM) since 1983. Licensed from Bruce Artwick Organization Ltd., Microsoft Flight Simulator has been updated several times and is available for MS-DOS and Macintosh operating systems. Microsoft Golf was introduced in 1992. Licensed from Access Software, Inc., the product is a realistic simulation of the sport of golf for the Windows operating system.

KIDS

Titles for children include Microsoft Creative Writer and Microsoft Fine Artist. Creative Writer is a full-featured creative writing and publishing program; Fine Artist is a comprehensive art program. Both products take advantage of the computer's ability to integrate text, high-quality graphics, sound, and animation to produce an enriching creative experience for children. In September 1994, The Company released the first in a series of products based on the popular children's books and television series, Magic School Bus.

INPUT DEVICES

The Company's major hardware product is the Microsoft Mouse, a hand-held pointing device that facilitates editing of text on the screen. It can be used with MS-DOS and Windows operating systems and works with many applications products from Microsoft and other companies. The mouse for the Intel microprocessor-based PC was first introduced in 1983. The mouse is sold separately or with Microsoft Windows.

In 1991, the Company began marketing the Microsoft BallPoint(R) Mouse, designed especially for use with laptop and notebook computers. The BallPoint Mouse is shipped with a universal clamp that fits on the keyboards of most laptop computers and a positioner that allows the user to adjust the angle of the mouse to the keyboard. In August 1994, the Company began shipping the Microsoft Natural Keyboard, an ergonomically superior keyboard input device.

MICROSOFT PRESS

Founded in 1983, Microsoft Press publishes books about software products from Microsoft and other software developers and about current developments in the industry. Books published by Microsoft Press typically are written and copyrighted by independent authors who submit their manuscripts to the Company for publication and who receive royalties based on net revenues generated by the product.

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

LOCALIZATION

Microsoft has a practice of localizing its products, including user messages and documentation, for distribution in other countries. Thus, in France, for example, all user messages and documentation are in French and all monetary references are in French francs, and in the United Kingdom, monetary references are in pounds and user messages and documentation reflect certain British conventions. Various Microsoft products have been localized into more than 30 languages.

MARKETING AND DISTRIBUTION

Microsoft aligns its sales and marketing people with three customer types: end users, organizations, and OEMs. The Company's sales and marketing staff builds long-term relationships with these customers of Microsoft products. Microsoft has four major channels of distribution which deliver product to end users: finished goods in the U.S. and Canada, Europe, and Other International; and OEM.

The end user customer unit has responsibility for activities that target end users who make individual buying decisions for the PCs they use at work or home. As such, the end user unit handles distributor and reseller relationships; reseller sales terms and conditions; channel marketing and promotions; end user marketing programs; support policies; and seminars, events, and sales training for resellers. Key products are the Company's personal operating systems and consumer and desktop applications.

The organization customer unit has responsibility for activities that target groups of users in large, medium, and small organizations. The unit works with Solutions Providers, the Microsoft Consulting Services division, and directly with organizations to create enterprise-wide solutions to business computing problems. The unit handles computing strategy for organizations; consulting strategy for organizations and Solutions Providers; vertical marketing programs; and large account licensing programs. Additionally, the unit is responsible for the technical training of Solutions Providers and channel resellers; support policies; and seminars, events, and sales training for resellers and Solutions Providers. Key products are the Company's business systems, developer software, and software licensed via large corporate account programs.

The OEM customer unit includes the sales force which works with original equipment manufacturers who include Microsoft software on their PCs.

FINISHED GOODS CHANNELS

DISTRIBUTORS AND RESELLERS: The Company markets its products in the finished goods channels primarily through independent, non-exclusive distributors and resellers. Distributors include Computer 2000, Ingram Micro, and Merisel. Resellers include Corporate Software, Egghead Software, Softmart, and Software Spectrum. Microsoft has a network of field sales representatives and field support personnel who solicit orders from distributors and resellers and provide product training and sales support.

LARGE ACCOUNTS: The Company has a program designed to make it easier for large organizations to acquire and maintain Microsoft products. The program, Microsoft Select, offers flexible software acquisition, licensing, and maintenance options specially designed to meet the needs of large multinational organizations. Targeted audiences include technology specialists and influential end users in large enterprises. Marketing efforts and fulfillment are generally coordinated with the Microsoft network of large account resellers.

SOLUTIONS PROVIDERS: The Microsoft Solutions Providers is a comprehensive support relationship with independent companies who provide integration, development, training, and support for business computing solutions. The program supports value-added resellers, system integrators, consultants, and training organizations. Under this business partnership strategy, the Company provides sales and product information, development services, early access to Microsoft products, and customer support tools including priority telephone support, education, and business development support. To ensure high-quality technical services for the Company's products, Microsoft Solutions Providers are required to have Microsoft-certified professionals on staff.

CONSULTING SERVICES: The Company's Consulting Services Division assists customers in using the Company's computer operating systems, applications, and communications products. The group works with Solutions Providers and helps create enterprise-wide computing solutions for large corporate accounts.

DIRECT MARKETING: Microsoft uses direct marketing techniques aimed at existing and potential users of the Company's products. Programs are typically directed through the mail, utilizing lists of targeted individuals. The Company uses direct marketing to promote sales of new versions of products to existing users. Fulfillment of product to the end user is accomplished by either direct shipment or through resellers.

INTERNATIONAL SALES SITES: The Company has established marketing, support, and/or distribution subsidiaries in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Colombia, the Czech Republic, Denmark, Dubai, Ecuador, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, Morocco, the Netherlands, New Zealand, Norway, People's Republic of China, Peru, Poland, Portugal, Puerto Rico, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom, and Venezuela.

The Company's international operations, both OEM and finished goods, are subject to certain risks common to foreign operations in general, such as governmental regulations, import restrictions, and foreign exchange rate fluctuations. Information with respect to international operations and export sales may be found on page 17 of the 1994 Annual Report to Shareholders, which is incorporated herein by reference.

OEM CHANNEL

The Company's operating systems are licensed primarily to OEMs under agreements that grant the OEMs the right to distribute copies of Microsoft's products with the OEMs' microcomputers. The Company also markets certain language and applications programs to OEMs under similar arrangements. In addition, the Company markets the Microsoft Mouse and BallPoint Mouse to OEMs for distribution to buyers of the OEMs' computers. In almost all cases, the products are distributed under Microsoft trademarks. The Company has OEM agreements covering one or more of its products with virtually all of the major microcomputer OEMs, including AST Research, DEC, Dell, Compaq, Fujitsu, Gateway 2000, IBM, NEC, Olivetti, Packard Bell, Toshiba, Unisys, and Zenith.

ADVERTISING

The Company works closely with large advertising and direct marketing firms. Advertising, direct marketing, worldwide packaging, and marketing materials are targeted to various end-user segments. The Company utilizes broad consumer medium (television, radio, and business publications) and trade publications. Microsoft also invests heavily in direct marketing and customer satisfaction areas. In 1995, the Company plans to spend more than \$100 million on a broad campaign emphasizing Microsoft brand identity.

PRODUCT SUPPORT

The Company's Product Support Services group, with locations in the U.S. and in Microsoft subsidiaries, provides product support coverage options to meet the needs of users of Microsoft products. The Company hires individuals with proven product expertise and provides them with productivity tools, continuous product education and training, and consistent processes to deliver quality support for Microsoft products. Coverage options range from standard no-charge toll telephone support to fee-based offerings providing unlimited 800# telephone and electronic technical support across all Microsoft products 24 hours per day, 7 days per week.

Users have access to Microsoft KnowledgeBase, a repository of over 55,000 technical articles that is updated regularly with useful information regarding Microsoft products. Microsoft provides access to KnowledgeBase via CompuServe(R), GENie(TM), Prodigy, America Online, and Internet. Additionally, the Company offers two information subscription services: Microsoft TechNet and Microsoft Developer Network.

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

CUSTOMERS

As described above, Microsoft has three customer types: end users, organizations, and OEMs. The Company believes that most of the end users of its products are individuals in businesses, government agencies, educational institutions, and at home. These end users obtain Microsoft products primarily through distributors, resellers, and OEMs, which include certain Microsoft products with their hardware. Notes to Financial Statements on page 13 of the 1994 Annual Report to Shareholders describe customers that represent more than 10% of the Company's revenues. The Company's practice is to ship its products promptly upon receipt of purchase orders from its customers and, consequently, backlog is not significant.

PRODUCT DEVELOPMENT

The microcomputer software industry is characterized by rapid technological change, which requires a continuous high level of expenditures for enhancing existing products and developing new products. The Company is committed to continued expenditures for research and product development.

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

The Company believes that a crucial factor in the success of a new product is getting it to market quickly to respond to a new user need or an advance in hardware design, without compromising product quality. The Company strives to become as informed as possible at the earliest possible time about technological advances and changing usage patterns.

During fiscal years 1992, 1993, and 1994, the Company spent \$352 million, \$470 million, and \$610 million, respectively, on product research and development activities. Those amounts represented 12.8%, 12.5%, and 13.1%, respectively, of net revenues in each of those years.

COMPETITION

The microcomputer software market is intensely competitive and subject to rapid change. The Company's competitors include many independent software vendors, such as Lotus Development, Oracle, and Novell. These companies generally have a narrower focus than the Company in product offerings such as spreadsheets, relational databases, word processors, and networking software.

Large personal computer OEMs are devoting significant resources to creating operating systems, notably IBM, Apple Computer, and Sun Microsystems. Microsoft markets its operating systems products to OEMs and end users. The Company competes for that business with the large OEMs and joint ventures of OEMs, and independent systems software vendors, such as Novell.

The Company believes that the principal competitive factors in marketing microcomputer software are the product's reputation, features and functions, ease of use, reliability, price relative to performance, timeliness of delivery, and availability and quality of support services. There is no assurance that the Company's competitive position will not be adversely affected by one or more of these factors in the future.

See "Outlook: Issues and Risks" on page 6 of the 1994 Annual Report to Shareholders, which is incorporated herein by reference.

PRODUCT PROTECTION

Microsoft regards the intellectual property used in its software as proprietary and attempts to protect it with copyrights, patents, trade secret laws, internal and external nondisclosure safeguards, and restrictions on disclosure and transfer that are incorporated into its software license agreements. Despite these restrictions, it is possible for competitors and users to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Existing laws protecting intellectual property are helpful but imperfect aids in preventing unauthorized copying and use of the Company's products. Monitoring and identifying unauthorized copying and use of software can be difficult, and software piracy is a persistent problem for the software industry. Piracy is particularly acute in international markets. Some of the Company's products distributed internationally use electronic copy protection to assist in preventing unauthorized copies, but the more typical Company antipiracy strategy is to work with others in the industry to secure the passage of appropriate laws protecting software, to educate the market and persuade users about the benefits of legitimate software, and to participate in selective enforcement actions.

MANUFACTURING

The Company has manufacturing facilities located in the United States, Puerto Rico, and Ireland. The Company's manufacturing operations involve the duplication of disks, assembly of purchased parts, and final packaging. Quality control tests are performed on purchased parts, duplicated disks, and finished products. The chief materials and components used in Microsoft products include disks, books, and multicolor printed materials. The Company is often able to acquire component parts and materials on a volume discount basis. The Company has multiple sources for raw materials, supplies, and components.

The Company contracts a portion of its manufacturing activity to third parties. Outside manufacturers produce software products, documentation, and hardware such as mouse pointing devices. There are other custom manufacturers in the event that products become unavailable from current sources.

EMPLOYEES

As of June 30, 1994, the Company employed 15,257 people, 10,264 domestically and 4,993 internationally. Of the total, 4,417 were in product research and development, 8,079 in sales, marketing, and support, 1,344 in manufacturing and distribution, and 1,417 in finance and administration. Microsoft's success is highly dependent on its ability to attract and retain qualified employees. Competition for employees is intense in the software industry. To date, the Company believes it has been successful in its efforts to recruit qualified employees, but there is no assurance that it will continue to be as successful in the future. None of the Company's employees are subject to collective bargaining agreements. The Company believes that relations with its employees are excellent.

Item 2. Properties

The Company's corporate offices consist of approximately two million square feet of office building space located in Redmond, Washington. There are two sites that total approximately 300 acres of land. The Company is constructing a 225,000 square foot office building, which is expected to be completed in the spring of 1995. Additionally, construction has started on another series of office buildings with approximately 675,000 square feet of space. Occupancy is expected by the end of calendar 1995. The Company owns all of its corporate campus.

The Company's domestic manufacturing and distribution operation consists of a 265,000 square foot facility situated on 23 acres in nearby Snohomish County, Washington, and a 45,000 square foot disk duplication facility in Humacao, Puerto Rico. The Puerto Rican facility, which began operation in April 1990, is leased under a 10-year lease, with an option to renew for an additional 10 years. The Company's European manufacturing operation consists of a 155,000 square foot facility situated on 12 acres in Dublin, Ireland. The Ireland site also includes a 25,000 square foot office building for international localization.

The Company owns a 65,000 square foot office building on seven acres of land near London, England. In Les Ulis, France, the Company owns a 110,000 square foot office building on four acres of land.

In addition, the Company leases office space in numerous locations in the United States and many other countries.

Item 3. Legal Proceedings

The Company is currently involved in litigation with Apple Computer, Inc. and Wang Laboratories, Inc. The information set forth in Notes to Financial Statements on page 15 of the 1994 Annual Report to Shareholders is incorporated herein by reference.

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

No matters were submitted to a vote of security holders during the last quarter of fiscal 1994.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company as of September 9, 1994 were as follows:

NAME	AGE	POSITION WITH THE COMPANY
William H. Gates	38	Chairman of the Board; Chief Executive Officer
Steven A. Ballmer	38	Executive Vice President, Sales and Support
Michael J. Maples	52	Executive Vice President, Products
Roger J. Heinen, Jr.	43	Senior Vice President, Developer Division
Frank M. (Pete) Higgins	36	Senior Vice President, Desktop Applications Division
Joachim Kempin	52	Senior Vice President, OEM Sales Division
Paul A. Maritz	39	Senior Vice President, Systems Division
Nathan P. Myhrvold	35	Senior Vice President, Advanced Technology
William H. Neukom	52	Senior Vice President, Law and Corporate Affairs; Corp. Secretary
Jeffrey S. Raikes	36	Senior Vice President, Microsoft North America
Bernard P. Vergnes	49	Vice President, Microsoft; President, Microsoft Europe
James E. Allchin	42	Vice President, Business Systems Division
Michael W. Brown	48	Vice President, Finance; Chief Financial Officer
Raymond A. Emery	52	Vice President, Operations
Richard W. Fade	39	Vice President, Advanced Technology Sales
Michel Lacombe	43	Vice President, End User Customer Business Unit, Europe
Jonathan D. Lazarus	43	Vice President, Strategic Relations
Robert L. McDowell	48	Vice President, Strategic Enterprise Services
Craig J. Mundie	45	Vice President, Advanced Consumer Technology
Michael R. Murray	39	Vice President, Human Resources
G. Christopher Peters	35	Vice President, Office Business Unit
Richard F. Rashid	42	Vice President, Research
Darryl E. Rubin	40	Vice President, Software Strategy
Brad A. Silverberg	40	Vice President, Personal Operating Systems Division
Rolf B. Skoglund	40	Vice President, Organization Customer Business Unit, Europe
Christopher F. Smith	59	Vice President, International Operations
Charles G. V. Stevens	37	Vice President, Far East
Patricia Q. Stonesifer	38	Vice President, Consumer Division
Deborah N. Willingham	38	Vice President, Product Support Services

Mr. Gates was a founder of the Company and has been its Chief Executive Officer and Chairman of the Board since the Company's predecessor partnership was incorporated in 1981. From 1975 to 1981, Mr. Gates was a partner with Paul Allen, Microsoft's other founder, in the predecessor partnership.

Mr. Ballmer was named Executive Vice President, Sales and Support in February 1992. He had been Senior Vice President, Systems Software since 1989. From 1984 until 1989, Mr. Ballmer served as Vice President, Systems Software. Since joining the Company in 1980, Mr. Ballmer has also served as Assistant to the President; Vice President, Corporate Staffs; and Vice President, Marketing.

Mr. Maples was named Executive Vice President, Products in February 1992. He had been Senior Vice President, Applications Software since 1991. Mr. Maples joined the Company as Vice President, Applications Software in 1988, after 23 years with International Business Machines Corporation. At IBM, Mr. Maples was Director of Software Strategy from 1986 to 1988, and prior to 1986 held a variety of positions in marketing and product development.

Mr. Heinen joined Microsoft as Senior Vice President, Developer Division in January 1993. He had been Senior Vice President and General Manager of the Macintosh Software Division at Apple Computer, Inc. from 1990 to 1993. Prior to 1990, Heinen was a corporate consulting engineer for software at Digital Equipment Corporation.

Mr. Higgins was named Senior Vice President, Desktop Applications Division in March 1993. He had been Vice President, Desktop Applications Division since 1992 and previously, Vice President, Analysis Business Unit since 1991. Mr. Higgins joined Microsoft in 1983 and has held various positions in product and program management, including General Manager of the Analysis Business Unit.

Mr. Kempin was named Senior Vice President, OEM Sales Division in August 1993. He had been Vice President, OEM Sales since 1987. Mr. Kempin had served as General Manager of Microsoft's German subsidiary since its inception in 1983.

Mr. Maritz was named Senior Vice President, Systems Division in February 1992. He had been Vice President, Advanced Operating Systems since 1989. Mr. Maritz joined Microsoft in 1986 and served as General Manager for Networks and XENIX.

Mr. Myhrvold was named Senior Vice President, Advanced Technology in July 1993. He had been Vice President, Advanced Technology and Business Development since 1989. Mr. Myhrvold joined Microsoft in 1986 and served as Director of Special Projects prior to his promotion.

Mr. Neukom was named Senior Vice President, Law and Corporate Affairs in February 1994. He joined the Company in 1985 as Vice President. Mr. Neukom formerly was a member of the Seattle law firm of Shidler McBroom Gates & Lucas (now Preston Gates & Ellis), the Company's outside law firm.

Mr. Raikes was named Senior Vice President, Microsoft North America in January 1992. He had been Vice President, Office Systems since 1990. Mr. Raikes came to Microsoft in 1981 and has held a variety of management positions, including General Manager of the Office Business Unit.

Mr. Vergnes is a Senior Vice President of Microsoft and was named President, Microsoft Europe in April 1992. He had been Vice President, Europe since 1989. Mr. Vergnes served as General Manager of Microsoft's French subsidiary since its inception in 1983.

Mr. Allchin was named Vice President, Business Systems Division, effective July 1991. Prior to joining Microsoft in 1991, Mr. Allchin spent seven years at Banyan Systems, Inc., where he held numerous positions, most recently Senior Vice President and Chief Technology Officer.

Mr. Brown was named Chief Financial Officer in August 1994 and Vice President, Finance in April 1993. He had been Treasurer since February 1990, after joining Microsoft in January 1990. Previously, Mr. Brown was a partner in the accounting firm Deloitte & Touche, the Company's independent auditors.

Mr. Emery was named Vice President, Operations in April 1993. He had been General Manager of Worldwide Manufacturing since joining Microsoft in July 1990. From 1988 to 1990, Mr. Emery was Divisional General Manager of Prestolite Electric, Inc.

Mr. Fade was named Vice President, Advanced Technology Sales in June 1994. He had served as Vice President, Far East Region since August 1992. Since joining Microsoft in 1986, he has served as Director, Far East OEM Sales; Director, U.S. OEM Sales; and Group Sales Manager, Microsoft OEM Division.

Mr. Lacombe was named Vice President, End User Customer Unit, Europe in April 1994. Mr. Lacombe joined Microsoft in 1983 as retail sales manager in the Company's French subsidiary before being promoted to general manager of the subsidiary in 1989. He was appointed Regional Director of Southern Europe in May 1991.

Mr. Lazarus was named Vice President, Strategic Relations in April 1994. He had served as Vice President, Systems Marketing since April 1992. Mr. Lazarus had been General Manager of System Software Marketing after having joined Microsoft in 1986 as the Director of Systems Strategy and Publisher of Microsoft Systems Journal.

Mr. McDowell joined Microsoft as Vice President, Strategic Enterprise Services in March 1990. Mr. McDowell came to Microsoft from Ernst & Young, where he was a partner and National Director of Strategic Business Systems. From 1983 to 1989, he was a partner with Arthur Young.

Mr. Mundie was named Vice President, Advanced Consumer Technology in July 1993. He joined Microsoft as General Manager, Advanced Consumer Technology Group in December 1992. Previously, Mr. Mundie had been CEO of Alliant Computer Systems Corporation, which declared bankruptcy on May 25, 1992 and was liquidated.

Mr. Murray was named Vice President, Human Resources and Administration in December 1991. He joined Microsoft in 1989 as General Manager of the Network Business Unit. Previously, Mr. Murray was President of Dataline, a systems integrator. He also held general management positions at Hewlett-Packard, Convergent Technologies, and Apple Computer.

Mr. Peters was named Vice President, Office Product Unit, effective November 1993. Prior to his promotion, he was general manager of the Word business unit. Mr. Peters was involved in the development of several key products since joining Microsoft in 1981.

Mr. Rashid was named Vice President, Research, effective July 1994. Since joining Microsoft in 1991, he was director of research. Mr. Rashid was Professor of Computer Science at Carnegie Mellon University, where he was on the faculty since 1979.

Mr. Rubin was named Vice President, Software Strategy, effective February 1990. Mr. Rubin joined Microsoft in 1986 and prior to his promotion held several management positions in the Network Development Division, most recently as Chief Architect.

Mr. Silverberg joined Microsoft in August 1990 as Vice President, Personal Operating Systems Division. From 1987 until joining Microsoft, Mr. Silverberg served as Vice President, Engineering for Borland International, Inc.

Mr. Skoglund was named Vice President, Organization Customer Unit, Europe in April 1994. Mr. Skoglund joined Microsoft in 1985 as general manager of the Company's Swedish subsidiary. He was appointed Regional Director of Northern Europe in May 1991.

Mr. Smith was named Vice President, International Operations, effective July 1990. From 1987, when Mr. Smith joined Microsoft, until his promotion, he served as Senior Director, European Operations.

Mr. Stevens was named Vice President, Far East, effective June 1994. He had been general manager of worldwide business strategy for the sales and support divisions and before that general manager of database products. Mr. Stevens joined Microsoft in 1984.

Ms. Stonesifer was named Vice President, Consumer Division in June 1993. She had been Vice President, Support since 1992 and General Manager of Product Support Services since 1991. Previously, she was General Manager of Microsoft Canada and before that, General Manager for Microsoft Press. Prior to joining Microsoft in 1988, Ms. Stonesifer was with Que Corporation, a publisher of books for computer users.

Ms. Willingham was named Vice President, Product Support Services in April 1994. She joined Microsoft in 1993 as general manager of end user support, and was later responsible for worldwide technical support strategy and all U.S. technical support personnel and operations. Prior to joining Microsoft, Ms. Willingham was director of IBM's Worldwide Manufacturing Technical Center in its application business systems unit.

PART II

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

The information set forth on page 18 of the 1994 Annual Report to Shareholders is incorporated herein by reference.

Item 6. Selected Financial Data

The information set forth on page 19 of the 1994 Annual Report to Shareholders is incorporated herein by reference.

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

The information set forth on pages 3, 4, 5, 6, 7, 11, and 12 of the 1994 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The following financial statements and supplementary financial information for the Company and report of independent auditors set forth on pages 2, 8, 9, 10, and 13 through 17 of the 1994 Annual Report to Shareholders are incorporated herein by reference:

- o Income Statements for each of the three years in the period ended June 30, 1994
- o Balance Sheets as of June 30, 1994 and 1993
- o Statements of Stockholders' Equity for each of the three years in the period ended June 30, 1994
- o Cash Flows Statements for each of the three years in the period ended June 30, 1994
- o Report of Independent Auditors
- o Notes To Financial Statements
- o Quarterly Financial And Market Information

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to Directors may be found under the caption "Election of Directors and Management Information" on pages 1 and 2 of the Company's Proxy Statement dated September 27, 1994, for the Annual Meeting of Shareholders to be held October 28, 1994 (the "Proxy Statement"). Such information is incorporated herein by reference. Information with respect to Executive Officers may be found on pages 11 through 13 hereof, under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

The information in the Proxy Statement set forth under the captions "Information Regarding Executive Officer Compensation" on pages 4 through 7 and "Information Regarding the Board and its Committees" on page 2 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

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

Item 13. Certain Relationships and Related Transactions

The information set forth under the caption "Certain Transactions" on page 7 of the Proxy Statement is incorporated herein by reference.

PART IV

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

(a) Documents filed as part of Form 10-K

1. Financial Statements

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

2. Financial Statement Schedules

Schedule Number -----	Description -----	Page Number -----
II	Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees other than Related Parties	18
VIII	Valuation and Qualifying Accounts	19
X	Supplementary Income Statement Information	20

The independent auditors' report with respect to the above-listed financial statement schedules appears on page 21 of this report on Form 10-K. Financial statement schedules other than those listed above have been omitted since they are either not required, not applicable, or the information is otherwise included.

3. Exhibit Listing

Exhibit Number -----	Description -----
3.1	Restated Articles of Incorporation
3.2	Bylaws
10.1	Microsoft Corporation 1991 Stock Option Plan
10.2	Microsoft Corporation 1981 Stock Option Plan (1)
10.3	Microsoft Corporation Stock Option Plan for Non-Employee Directors
10.4	Microsoft Corporation Stock Option Plan for Consultants and Advisors
10.5	Microsoft Corporation 1991 Employee Stock Purchase Plan
10.6	Microsoft Corporation Savings Plus Plan
10.7	Trust Agreement dated June 1, 1993 between Microsoft Corporation and First Interstate Bank of Washington (2)
10.8	Form of Indemnification Agreement (2)
11.	Computation of Earnings Per Share
13.	1994 Annual Report to Shareholders
21.	Subsidiaries
23.	Independent Auditors' Consent
27.	Financial Data Schedule

(a) Documents filed as part of Form 10-K (Continued)

3. Exhibit Listing (Continued)

Exhibit Number -----	Description -----
99.1	Financial Statements for the Microsoft Corporation 1991 Employee Stock Purchase Plan for the Three Years Ended June 30, 1994
99.2	Financial Statements for the Microsoft Corporation Savings Plus Plan for the Year Ended December 31, 1993 and the Nine Months Ended December 31, 1992

(1) Incorporated by reference to Registration Statement 33-37623 on Form S-8.

(2) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1993.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of fiscal 1994.

SCHEDULE II --- AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS,
 PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES
 (In thousands)

	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period	
		Principal	Interest	Collected	Written Off	Current	Long-term
Year ended June 30, 1992:							
Brad A. Silverberg (1)	\$264	\$ --	\$13	\$ 52	\$ --	\$ --	\$225
Paul J. Leach (2)	--	250	1	251	--	--	--
	----	----	---	----	----	----	----
	\$264	\$250	\$14	\$303	\$ --	\$ --	\$225
	=====	=====	====	=====	=====	=====	=====
Year ended June 30, 1993:							
Brad A. Silverberg (1)	\$225	\$ --	\$ 5	\$230	\$ --	\$ --	\$ --
Craig J. Mundie (3)	--	250	6	--	--	--	256
	----	----	---	----	----	----	----
	\$225	\$250	\$11	\$230	\$ --	\$ --	\$256
	=====	=====	====	=====	=====	=====	=====
Year ended June 30, 1994:							
Craig J. Mundie (3)	\$256	\$ --	\$16	\$ --	\$ --	\$ --	\$272
	=====	=====	====	=====	=====	=====	=====

- (1) Consisted of a promissory note for \$300,000 dated August 20, 1990, bearing interest at 8 1/2% simple interest during the first year and 5 1/2% during the second year. For the third year the interest rate was 3.48%. The note was paid February 11, 1993.
- (2) Consisted of a 90-day interest free promissory note for \$250,000 dated September 3, 1991. After 90 days, the note bore interest at 10% per annum simple interest and was paid December 27, 1991.
- (3) Consists of a promissory note for \$250,000 dated February 5, 1993 which bears interest at the rate of 6.25% per annum simple interest. The note is due in five years, with accelerated payments in accordance with a stock option exercise schedule.

Schedule VIII --- VALUATION AND QUALIFYING ACCOUNTS
(In millions)

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
	-----	-----	-----	-----	-----
Allowance for doubtful accounts:					
Year ended June 30, 1992.	\$36	\$26	--	\$ 5	\$57
Year ended June 30, 1993.	57	47	--	28	76
Year ended June 30, 1994.	76	27	--	11	92

SCHEDULE X --- SUPPLEMENTARY INCOME STATEMENT INFORMATION (1)
(In millions)

	Charged to Costs and Expenses Year Ended June 30		
	1992	1993	1994
	-----	-----	-----
Royalties	\$21	\$ 36	\$ 60
Advertising costs	87	101	107

(1) The amounts for maintenance and repairs; amortization of intangible assets, preoperating costs and similar deferrals; and taxes other than payroll and income taxes are not reported as these items did not exceed 1% of total revenues.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the financial statements of Microsoft Corporation and subsidiaries as of June 30, 1994 and 1993, and for each of the three years in the period ended June 30, 1994, and have issued our report thereon dated July 20, 1994; such financial statements and report are included in your 1994 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedules of Microsoft Corporation and subsidiaries, listed in Item 14(a)2. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE

Seattle, Washington
July 20, 1994

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Redmond, State of Washington, on September 23, 1994.

MICROSOFT CORPORATION

By /s/ Michael W. Brown

 Michael W. Brown,
 Vice President, Finance;
 Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on September 23, 1994.

SIGNATURE

TITLE

/s/ William H. Gates

Chairman of the Board of Directors
and Chief Executive Officer-----
William H. Gates

/s/ Paul G. Allen

Director

Paul G. Allen

/s/ Richard A. Hackborn

Director

Richard A. Hackborn

/s/ David F. Marquardt

Director

David F. Marquardt

/s/ Robert D. O'Brien

Director

Robert D. O'Brien

/s/ Wm. G. Reed, Jr.

Director

Wm. G. Reed, Jr.

/s/ Jon A. Shirley

Director

Jon A. Shirley

/s/ Michael W. Brown

Vice President, Finance; Chief Financial
Officer (Principal Financial and
Accounting Officer)-----
Michael W. Brown

MICROSOFT CORPORATION

Exhibit Index

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(2) Incorporated by reference to Annual Report on Form 10-K For The Fiscal Year Ended June 30, 1993.

RESTATED ARTICLES OF INCORPORATION
OF
MICROSOFT CORPORATION

Pursuant to RCW 23B.10.070, the following Restated Articles of Incorporation are hereby submitted for filing:

ARTICLE I

NAME

The name of the corporation is Microsoft Corporation.

ARTICLE II

REGISTERED OFFICE AND AGENT

The address of the registered office of the "Corporation" is 5000 Columbia Center, 701 Fifth Avenue, Seattle, Washington 98104-7078, and the name of the registered agent at such address is PTSGE Corp.

ARTICLE III

PURPOSE

The Corporation is organized for the purposes of transacting any and all lawful business for which a corporation may be incorporated under the Washington Business Corporation Act, Title 23B of the Revised Code of Washington, now or hereafter in force (the "Act").

ARTICLE IV

CAPITAL

The total number of shares of stock which the Corporation shall have authority to issue is 2,000,000,000 shares, which shall consist entirely of 2,000,000,000 shares of common stock, \$.00005 par value per share ("Common Stock"). All shares of Common Stock have one vote per share.

ARTICLE V

NO PREEMPTIVE RIGHTS

Shareholders of the Corporation have no preemptive rights to acquire additional shares of stock or securities convertible into shares of stock issued by the Corporation.

ARTICLE VI

DIRECTORS

6.1 The number of directors of the Corporation shall be fixed in the manner specified by the bylaws of the Corporation.

6.2 Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, unless for any reason there are no directors in office in which case they shall be filled by a special election by shareholders.

ARTICLE VII

ELECTION OF DIRECTORS

Shareholders of the Corporation shall not have the right to cumulate votes in the election of directors.

ARTICLE VIII

SPECIAL SHAREHOLDER MEETINGS

Special meetings of the shareholders of the Corporation for any purpose or purposes may be called at any time by the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons.

ARTICLE-IX

AMENDMENT OF BYLAWS

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, adopt, repeal, alter, amend, and rescind the bylaws of the Corporation by a resolution adopted by a majority of the directors.

ARTICLE X

LIMITATION OF DIRECTOR LIABILITY

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director, except for:

- (a) Acts or omissions involving intentional misconduct by the director or a knowing violation of law by the director;
- (b) Conduct violating Section 23B.08.310 of the Act (which involves distributions by the Corporation);
- (c) Any transaction from which the director will personally receive a benefit in money, property, or services to which the director is not legally entitled.

If the Washington Business Corporation Act is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent not prohibited by the Washington Business Corporation Act, as so amended. The provisions of this Article shall be deemed to be a contract with each Director of the Corporation who serves as such at any time while such provisions are in effect, and each such Directors shall be deemed to be serving as such in reliance on the provisions of this Article. Any repeal or modification of the foregoing paragraph by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation with respect to any acts or omissions of such director occurring prior to such repeal or modification.

ARTICLE XI

MERGERS, SHARE EXCHANGES, AND OTHER TRANSACTIONS

A merger, share exchange, sale of substantially all of the Corporation's assets, or dissolution must be approved by the affirmative vote of a majority of the Corporation's

outstanding shares entitled to vote, or if separate voting by voting groups is required then by not less than a majority of all the votes entitled to be cast by that voting group.

ARTICLE XII

INDEMNIFICATION

12.1 Definitions. As used in this Article:

a. "Agent" means an individual who is or was an agent of the Corporation or an individual who, while an agent of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Agent" includes, unless the context requires otherwise, the spouse, heirs, estate and personal representative of an agent.

b. "Corporation" means the Corporation, and any domestic or foreign predecessor entity which, in a merger or other transaction, ceased to exist.

c. "Director" means an individual who is or was a director of the Corporation or an individual who, while a director of the Corporation, is or was serving at the Corporation's request as a director officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. "Director" includes, unless the context requires otherwise, the spouse, heirs, estate and personal representative of a director.

d. "Employee" means an individual who is or was an employee of the Corporation or an individual, while an employee of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise- "Employee" includes, unless the context requires otherwise, the spouse, heirs, estate and personal representative of an employee.

e. "Expenses" include counsel fees.

f. "Indemnatee" means an individual made a party to a proceeding because the individual is or was a Director, Officer, Employee, or Agent of the Corporation, and who possesses indemnification rights pursuant to these Articles or other corporate action. "Indemnatee" includes, unless the context requires otherwise, the spouse, heirs, estate, and personal representative of such individuals.

g. "Liability" means the obligation to pay a judgment, settlement penalty, fine, including an excise tax with respect to an employee benefit plan, or reasonable Expenses incurred with respect to a proceeding.

h. "Officer" means an individual who is or was an officer of the Corporation (regardless of whether or not such individual was also a Director) or an individual who, while an officer of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Officer" includes, unless the context requires otherwise, the spouse, heirs, estate and personal representative of an officer.

i. "Party" includes an individual who was, is, or is threatened to be named a defendant, respondent or witness in a proceeding.

j. "Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, derivative, criminal, administrative, or investigative, and whether formal or informal.

12.2 Indemnification Rights of Directors and Officers. The Corporation shall indemnify its Directors and Officers to the full extent not prohibited by applicable law now or hereafter in force against liability arising out of a Proceeding to which such individual was made a Party because the individual is or was a Director or an Officer. However, such indemnity shall not apply on account of:

- (a) Acts or omissions of a Director or Officer finally adjudged to be intentional misconduct or a knowing violation of law;
- (b) Conduct of a Director or Officer finally adjudged to be in violation of Section 23B.09.3 10 of the Act relating to distributions by the Corporation; or
- (c) Any transaction with respect to which it was finally adjudged that such Director or Officer personally received a benefit in money, property, or services to which the Director or Officer was not legally entitled.

Subject to the foregoing, it is specifically intended that Proceedings covered by indemnification shall include Proceedings brought by the Corporation (including derivative actions) Proceedings by government entities and governmental officials or other third party actions.

12.3 Indemnification of Employees and Agents of the Corporation. The Corporation may, by action of its Board of Directors from time to time, provide indemnification and pay Expenses in advance of the final disposition of a Proceeding to Employees and Agents of the Corporation who are not also Directors, in each case to the same extent as to a Director with

respect to the indemnification and advancement of Expenses pursuant to rights granted under, or provided by, the Act or otherwise.

12.4 Partial Indemnification. If an Indemnitee is entitled to indemnification by the Corporation for some or a portion of Expenses, liabilities, or losses actually and reasonably incurred by Indemnitee in an investigation, defense, appeal or settlement but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such Expenses, liabilities or losses to which Indemnitee is entitled.

12.5 Procedure for Seeking Indemnification and/or Advancement of Expenses. The following procedures shall apply in the absence of (or at the option of the Indemnitee, in lieu thereof), specific procedures otherwise applicable to an Indemnitee pursuant to a contract, trust agreement, or general or specific action of the Board of Directors:

12.5.1 NOTIFICATION AND DEFENSE OF CLAIM. Indemnitee shall promptly notify the Corporation in writing of any proceeding for which indemnification could be sought under this Article. In addition, Indemnitee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

With respect to any such proceeding as to which Indemnitee has notified the Corporation:

- (a) The Corporation will be entitled to participate therein at its own expense; and
- (b) Except as otherwise provided below, to the extent that it may wish, the Corporation, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, with counsel satisfactory to Indemnitee. Indemnitee's consent to such counsel may not be unreasonably withheld.

After notice from the Corporation to Indemnitee of its election to assume the defense, the Corporation will not be liable to Indemnitee under this Article for any legal or other Expenses subsequently incurred by Indemnitee in connection with such defense. However, Indemnitee shall continue to have the right to employ its counsel in such proceeding, at Indemnitee's expense; and if:

- (i) The employment of counsel by Indemnitee has been authorized by the Corporation;
- (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of such defense; or

- (iii) The Corporation shall not in fact have employed counsel to assume the defense of such proceeding,

the fees and Expenses of Indemnitee's counsel shall be at the expense of the Corporation.

The Corporation shall not be entitled to assume the defense of any proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall reasonably have made the conclusion that a conflict of interest may exist between the Corporation and the Indemnitee in the conduct of the defense.

12.5.2 INFORMATION TO BE SUBMITTED AND METHOD OF DETERMINATION AND AUTHORIZATION OF INDEMNIFICATION. For the purpose of pursuing rights to indemnification under this Article, the Indemnitee shall submit to the Board a sworn statement requesting indemnification and reasonable evidence of all amounts for which such indemnification is requested (together, the sworn statement and the evidence constitute an "Indemnification Statement").

Submission of an Indemnification Statement to the Board shall create a presumption that the Indemnitee is entitled to indemnification hereunder, and the Corporation shall, within sixty (60) calendar days thereafter, make the payments requested in the Indemnification Statement to or for the benefit of the Indemnitee, unless: (1) within such sixty (60) calendar day period it shall be determined by the Corporation that the Indemnitee is not entitled to indemnification under this Article; (2) such determination shall be based upon clear and convincing evidence (sufficient to rebut the foregoing presumption); and (3) the Indemnitee shall receive notice in writing of such determination, which notice shall disclose with particularity the evidence upon which the determination is based.

The foregoing determination may be made: (1) by the Board of Directors by majority vote of a quorum of Directors who are not at the time parties to the proceedings; (2) if a quorum cannot be obtained, by majority vote of a committee duly designated by the Board of Directors (in which designation Directors who are parties may participate) consisting solely of two (2) or more Directors not at the time parties to the proceeding; (3) by special legal counsel; or (4) by the shareholders as provided by Section 23B.08.550 of the Act.

Any determination that the Indemnitee is not entitled to indemnification, and any failure to make the payments requested in the Indemnification Statement, shall be subject to judicial review by any court of competent jurisdiction.

12.5.3 SPECIAL PROCEDURE REGARDING ADVANCE FOR EXPENSES. An Indemnitee seeking payment of Expenses in advance of a final disposition of the proceeding must furnish the Corporation, as part of the Indemnification Statement:

- (a) A written affirmation of the Indemnatee's good faith belief that the Indemnatee has met the standard of conduct required to be eligible for indemnification; and
- (b) A written undertaking, constituting an unlimited general obligation of the Indemnatee, to repay the advance if it is ultimately determined that the Indemnatee did not meet the required standard of conduct.

Upon satisfaction of the foregoing the Indemnatee shall have a contractual right to the payment of such Expenses.

12.5.4 SETTLEMENT. The Corporation is not liable to indemnify Indemnatee for any amounts paid in settlement of any proceeding without the Corporation's written consent. The Corporation shall not settle any proceeding in any manner which would impose any penalty or limitation on Indemnatee without Indemnatee's written consent. Neither the Corporation nor Indemnatee may unreasonably withhold its consent to a proposed settlement.

12.6. Contract and Related Rights.

12.6.1 CONTRACT RIGHTS. The right of an Indemnatee to indemnification and advancement of Expenses is a contract right upon which the Indemnatee shall be presumed to have relied in determining to serve or to continue to serve in his or her capacity with the Corporation. Such right shall continue as long as the Indemnatee shall be subject to any possible proceeding. Any amendment to or repeal of this Article shall not adversely affect any right or protection of an Indemnatee with respect to any acts or omissions of such Indemnatee occurring prior to such amendment or repeal.

12.6.2 OPTIONAL INSURANCE, CONTRACTS, AND FUNDING. The Corporation may:

- (a) Maintain insurance, at its expense, to protect itself and any Indemnatee against any liability, whether or not the Corporation would have power to indemnify the individual against the same liability under Section 23B.08.5 10 or .520 of the Act;
- (b) Enter into contracts with any Indemnatee in furtherance of this Article and consistent with the Act; and
- (c) Create a trust fund, grant a security interest, or use other means (including without limitation a letter of credit) to ensure the

payment of such amounts as may be necessary to effect indemnification as provided in this Article.

12.6.3 SEVERABILITY. If any provision or application of this Article shall be invalid or unenforceable, the remainder of this Article and its remaining applications shall not be affected thereby, and shall continue in full force and effect.

12.6.4 RIGHT OF INDEMNITEE TO BRING SUIT. If (1) a claim under this Article for indemnification is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation; or (2) a claim under this Article for advancement of Expenses is not paid in full by the Corporation within twenty (20) days after a written claim has been received by the Corporation, then the Indemnitee may, but need not, at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the extent successful in whole or in part, the Indemnitee shall be entitled to also be paid the expense (to be proportionately prorated if the Indemnitee is only partially successful) of prosecuting such claim. Neither (1) the failure of the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) to have made a determination prior to the commencement of such proceeding that indemnification or reimbursement or advancement of Expenses to the Indemnitee is proper in the circumstances; nor (2) an actual determination by the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) that the Indemnitee is not entitled to indemnification or to the reimbursement or advancement of Expenses, shall be a defense to the proceeding or create a presumption that the Indemnitee is not so entitled.

12.6.5 NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the payment of Expenses incurred in defending a Proceeding in advance of its final disposition granted in this Article shall not be exclusive of any other right which any Indemnitee may have or hereafter acquire under any statute, provision of this Article or the Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise. The Corporation shall have the express right to grant additional indemnity without seeking further approval or satisfaction by the shareholders. All applicable indemnity provisions and any applicable law shall be interpreted and applied so as to provide an Indemnitee with the broadest but nonduplicative indemnity to which he or she is entitled.

12.7 Contribution. If the indemnification provided in Section 12.2 of this Article is not available to be paid to Indemnitee for any reason other than those set forth in subparagraphs 12.2(a), 12.2(b), and 12.2(c) of Section 12.2 of this Article (for example, because indemnification is held to be against public policy even though otherwise permitted under Section 12.2) then in respect of any proceeding in which the Corporation is jointly liable with Indemnitee (or would be if joined in such proceeding), the Corporation shall contribute to the amount of loss paid or payable by Indemnitee in such proportion as is appropriate to reflect:

The relative benefits received by the Corporation on the one hand and the Indemnitee on the other hand from the transaction from which such proceeding arose, and

The relative fault of the Corporation on the one hand and the Indemnitee on the other hand in connection with the events which resulted in such loss, as well as any other relevant equitable consideration.

The relative benefits received by and fault of the Corporation on the one hand and the Indemnitee on the other shall be determined by a court of appropriate jurisdiction (which may be the same court in which the proceeding took place) with reference to, among other things, the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent the circumstances resulting in such loss. The Corporation agrees that it would not be just and equitable if a contribution pursuant to this Article was determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

12.8 Exceptions. Any other provision herein to the contrary notwithstanding, the Corporation shall not be obligated pursuant to the terms of these Articles to indemnify or advance Expenses to Indemnitee with respect to any proceeding.

12.8.1 CLAIMS INITIATED BY INDEMNITEE. Initiated or brought voluntarily by Indemnitee and not by way of defense, but such indemnification or advancement of Expenses may be provided by the Corporation in specific cases if the Board of Directors finds it to be appropriate. Notwithstanding the foregoing, the Corporation shall provide indemnification including the advancement of Expenses with respect to Proceedings brought to establish or enforce a right to indemnification under these Articles or any other statute or law or as otherwise required under the statute.

12.8.2 LACK OF GOOD FAITH. Instituted by Indemnitee to enforce or interpret this Article, if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such proceeding was not made in good faith or was frivolous.

12.8.3 INSURED CLAIMS. For which any of the Expenses or liabilities for indemnification is being sought have been paid directly to Indemnitee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Corporation.

12.8.4 PROHIBITED BY LAW. If the Corporation is prohibited by the Act or other applicable law as then in effect from paying such indemnification and/or advancement of Expenses. For example, the Corporation and Indemnitee acknowledge that the Securities and Exchange Commission ("SEC") has taken the position that indemnification is not possible for liabilities arising under certain federal securities laws. Indemnitee understands and acknowledges that the Corporation has undertaken or may be required in

the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Corporation's right to indemnify Indemnatee.

12.9 Successors and Assigns. All obligations of the Corporation to indemnify any Director or Officer shall be binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law). The Corporation shall not effect any sale of substantially all of its assets, merger, consolidation, or other reorganization, in which it is not the surviving entity, unless the surviving entity agrees in writing to assume all such obligations of the Corporation.

ARTICLE XIII

CORPORATION'S ACQUISITION OF ITS OWN SHARES

The Corporation may purchase, redeem, receive, take or otherwise acquire, own and hold, sell, lend, exchange, transfer or otherwise dispose of, pledge, use and otherwise deal with and in its own shares. As a specific modification of Section 23B.06.310 of the Act, pursuant to the authority in Section 23B.02.020(5)(c) of the Act, to include provisions related to the management of the business and the regulation of the affairs of the Corporation, shares of the Corporation's stock acquired by it pursuant to this Article shall be considered "Treasury Stock" and so held by the Corporation. The shares so acquired by the Corporation shall not be considered as authorized and unissued but rather as authorized, issued, and held by the Corporation. The shares, so acquired shall not be regarded as cancelled or as a reduction to the authorized capital of the Corporation unless specifically so designated by the Board of Directors in an amendment to these Articles of Incorporation. The provisions of this Article do not alter or effect the status of the Corporation's acquisition of its shares as a "distribution" by the Corporation as defined in Section 23B.01.400(6) of the Act, nor alter or effect the limitations on distributions by the Corporation as set forth in Section 23B.06.400 of the Act. Any shares so acquired by the Corporation, unless otherwise specifically designated by the Board of Directors, at the time of acquisition, shall be considered on subsequent disposition, as transferred rather than reissued. Nothing in this Article limits or restricts the right of the Corporation to resell or otherwise dispose of any of its shares previously acquired for such consideration and according to such procedures as established by the Board of Directors.

The undersigned has signed these Restated Articles of Incorporation on May ____, 1994.

William H. Neukom
Secretary

CERTIFICATE

The undersigned, as Secretary of Microsoft Corporation, hereby certifies that the accompanying Restated Articles of Incorporation were adopted by the Board of Directors on April 23, 1994 and do not contain any amendment requiring shareholder approval.

Dated: May __, 1994.

Microsoft Corporation

William H. Neukom
Secretary

BYLAWS
OF
MICROSOFT CORPORATION

ARTICLE I
SHAREHOLDERS

1.1 ANNUAL MEETING. The annual meeting of the shareholders of the Corporation for the election of Directors and for the transaction of such other business as properly may be submitted to such annual meeting, shall be held at the hour and on the date designated by the Board of Directors or an authorized committee of the Board of Directors, such date to be within 150 days of the end of the fiscal year.

1.2 SPECIAL MEETINGS. Special meetings of the shareholders of the Corporation, for any purpose or purposes, may be called at any time by the Board of Directors or an authorized committee of the Board of Directors.

1.3 PLACE OF MEETINGS. Meetings of shareholders shall be held at such place within or without the State of Washington as determined by the Board of Directors, or an authorized committee, pursuant to proper notice.

1.4 NOTICE. Written notice of each shareholders' meeting stating the date, time, and place and, in case of a special meeting, the purpose(s) for which such meeting is called, shall be given by the Corporation not less than ten (10) (unless a greater period of notice is required by law in a particular case) nor more than sixty (60) days prior to the date of the meeting, to each shareholder of record, to the shareholder's address as it appears on the current record of shareholders of the Corporation.

1.5 QUORUM OF SHAREHOLDERS. At any meeting of the shareholders, a majority in interest of all the shares entitled to vote on a matter, represented by shareholders of record in person or by proxy, shall constitute a quorum of that voting group for action on that matter.

Once a share is represented at a meeting, other than to object to holding the meeting or transacting business, it is deemed to be present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting. At such reconvened meeting, any business may be transacted that might have been transacted at the meeting as originally notified.

If a quorum exists, action on a matter is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the question is one upon which by express provision of the Washington Business Corporation Act, as amended ("WBCA"), or of the Articles of Incorporation or of these Bylaws a different vote is required.

1.6 ADJOURNMENT. A majority of the shares represented at the meeting, even if less than a quorum, may adjourn the meeting from time to time. At such reconvened meeting at which a quorum is present any business may be transacted at the meeting as originally notified. If a meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, or place if a new date, time, or place is announced at the meeting before adjournment; however, if a new record date for the adjourned meeting is or must be fixed in accordance with the WBCA, notice of the adjourned meeting must be given to persons who are shareholders as of the new record date.

1.7 RECORD DATE AND TRANSFER BOOKS. For the purpose of determining shareholders who are entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

If no record date is fixed for such purposes, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date is fixed for the original meeting.

1.8 VOTING RECORD. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make at least ten (10) days before each meeting of shareholders a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged by any applicable voting groups and in alphabetical order, with the address of and the number of shares held by each. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder or any shareholder's agent during the whole time of the meeting for the purposes thereof.

1.9 PROXIES. Shareholders of record may vote at any meeting either in person or by proxy executed in writing. A proxy is effective when received by the person authorized to tabulate votes for the Corporation. A proxy is valid for eleven (11) months unless a longer period is expressly provided in the proxy.

1.10 ORGANIZATION OF MEETING. The officer designated by the Board of Directors as Chief Executive Officer (or in his absence, any other officer designated by the Board of Directors) may call any meeting of shareholders to order and shall be the Chairman thereof. The Secretary of the Corporation, if present at any meeting of its shareholders, shall act as the Secretary of such meeting. If the Secretary is absent from any such meeting, the Chairman of such meeting may appoint a Secretary for the meeting.

1.11 ORDER OF BUSINESS. The Chairman of a meeting of shareholders, determined in accordance with Section 1.10, shall have discretion to establish the order of

business for such meeting subject to any specific order established by the Board of Directors.

ARTICLE II

BOARD OF DIRECTORS

2.1 NUMBER AND QUALIFICATIONS. The business affairs and property of the Corporation shall be managed by a Board of not less than three directors nor more than eleven directors. The number of directors may at any time be increased or decreased by resolution of the Board of Directors or by the shareholders at the annual meeting. Directors need not be shareholders of the Corporation or residents of the state of Washington.

2.2 ELECTION - TERM OF OFFICE. The directors shall be elected by the shareholders at each annual shareholders' meeting to hold office until the next annual meeting of the shareholders and until their respective successors are elected and qualified. If, for any reason, the directors shall not have been elected at any annual meeting, they may be elected at a special meeting of shareholders called for that purpose in the manner provided by these Bylaws.

2.3 REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such places, and at such times as the Board may determine, and, if so determined, no notice thereof need be given. A regular meeting of the Board may be held without notice immediately after the annual meeting of shareholders at the same place at which such meeting was held.

2.4 SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time or place upon the call of a majority of directors, the Chief Executive Officer or the Chief Operating Officer by oral or written notice, given or mailed to each director not less than two (2) days before such meeting.

2.5 NOTICE. No notice is required for regular meetings of the Board of Directors. Notice of special meetings of the Board of Directors, stating the date, time, and place thereof, shall be given at least two (2) days prior to the date of the meeting. The purpose of the meeting need not be given in the notice. Such notice may be oral or written.

2.6 WAIVER OF NOTICE. A director may waive notice of a special meeting of the Board either before or after the meeting, and such waiver shall be deemed to be the equivalent of giving notice. The waiver must be in writing, signed by the director entitled to the notice and delivered to the Corporation for inclusion in its corporate records. Attendance or participation of a director at a meeting shall constitute waiver of notice of that meeting unless said director attends or participates for the express purpose of objecting to the transaction of business because the meeting has not been lawfully called or convened.

2.7 QUORUM OF DIRECTORS. A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained. When a quorum is present at any meeting, a majority of the members present shall decide any question brought before such meeting, except as otherwise provided by the Articles of Incorporation or by these Bylaws.

2.8 ADJOURNMENT. A majority of the directors present, even if less than a quorum, may adjourn a meeting and continue it to a later time. Notice of the adjourned meeting or of the business to be transacted thereat, other than by announcement, shall not be necessary. At any adjourned meeting at which a quorum is present, any business may be transacted which could have been transacted at the meeting as originally called.

2.9 RESIGNATION. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors, the Chairman, the President, or the Secretary of the Corporation. Any such resignation is effective when the notice is delivered, unless the notice specifies a later effective date.

2.10 VACANCIES. Unless otherwise provided by the WBCA, in case of any vacancy in the Board of Directors, including a vacancy resulting from an increase in the number of directors, the remaining directors, whether constituting a quorum or not, may fill the vacancy.

2.11 COMPENSATION. The Board shall have the sole authority to fix the amount of compensation of directors.

2.12 COMMITTEES. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members one or more committees, each of which:

- a. Shall have two (2) or more members;
- b. Shall be governed by the same rules regarding meetings, action without meetings, notice, and waiver of notice, and quorum and voting requirements as applied to the Board of Directors; and
- c. To the extent provided in such resolution, shall have and may exercise all the authority of the Board of Directors, except no such committee shall have the authority to:
 - (1) Authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors;
 - (2) Approve or propose to shareholders action which the WBCA requires to be approved by shareholders;
 - (3) Fill vacancies on the Board of Directors or on any of its committees;
 - (4) Amend the Articles of Incorporation;
 - (5) Adopt, amend, or repeal the Bylaws;
 - (6) Approve a plan of merger not requiring shareholder approval; or
 - (7) Authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences, and limitations on a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

ARTICLE III

SPECIAL MEASURES APPLYING TO MEETINGS OF
SHAREHOLDERS, THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

3.1 ACTION BY WRITTEN CONSENT. Any action required or permitted to be taken at a meeting of the Board of Directors or a committee of the Board may be accomplished without a meeting if the action is taken by all the members of the Board or all the members of the committee, as the case may be. The action must be evidenced by one or more written consents describing the action to be taken, signed by all directors or all members of the committee, as the case may be, and delivered to the Corporation for inclusion in the minutes. Directors' consents may be signed either before or after the action taken.

Action taken by unanimous written consent is effective when the last director signs the consent, unless the consent specifies a later effective date.

3.2 USE OF COMMUNICATIONS EQUIPMENT. Meetings of the shareholders, the Board of Directors and committees of the Board may be effectuated by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at such meeting.

3.3 ORAL AND WRITTEN NOTICE. Oral notice may be communicated in person or by telephone, wire or wireless equipment that does not transmit a facsimile of the notice. Oral notice is effective when communicated if communicated in a comprehensible manner.

Written notice may be transmitted by mail, private carrier, or personal delivery; telegraph or teletype; or telephone, wire, or wireless equipment that transmits a facsimile of the notice and provides the transmitter with an electronically generated receipt. Written notice is effective at the earliest of the following: (a) when received; (b) five (5) days after its deposit in the US. mail if mailed with first-class postage; (c) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee.

ARTICLE IV

OFFICERS

4.1 POSITIONS. The officers of the Corporation may consist of a Chairman, a President, one or more Vice Presidents (who may be designated as Vice Presidents, Senior Vice Presidents or Executive Vice Presidents), a Secretary and a Treasurer as appointed by the Board of Directors or the Chief Executive Officer. The Corporation may have such additional or assistant officers (sometimes referred to as "additional officers") as the Board of Directors, Chief Executive Officer or Chief Operating Officer may deem necessary for its business and may appoint from time to time. The Board of Directors shall also have the authority, but shall not be required, to designate officers as the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer or similar such titles. Any two or more offices may be held by the same person.

If a director/officer has not been designated as Chairman, or if the designated Chairman is not present, the Board of Directors shall elect a Chairman from amongst its members to serve as Chairman of the Board of Directors. The Chairman shall preside at all meetings of the Board of Directors, and shall have such other powers as the Board may determine.

4.2 APPOINTMENT AND TERM OF OFFICE. The officers of the Corporation shall be appointed annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If officers are not appointed at such meeting, such appointment shall occur as soon as possible thereafter, or may be left vacant. Each officer shall hold office until a successor shall have been appointed and qualified or until said officer's earlier death, resignation, or removal.

4.3 AUTHORITY AND DUTIES OF THE CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have general charge and supervision of the business of the Corporation, shall see that all orders, actions and resolutions of the Board of Directors are carried out, and shall have such other authority and shall perform such other duties as set forth in these bylaws or, to the extent consistent with the bylaws, such other authorities and duties as prescribed by the Board of Directors.

4.4 AUTHORITY AND DUTIES OF OTHER OFFICERS. Each officer other than the Chief Executive Officer shall have the authority and shall perform the duties set forth in these bylaws or, to the extent consistent with the bylaws, the duties prescribed by the Board of Directors, by the Chief Executive Officer, or by an officer authorized by the Board of Directors to prescribe the duties of such officer. Any designation of duties by the Chief Executive Officer or other officer shall be subject to review by the Board of Directors but shall be in full force and effect in the absence of such review.

4.5 COMPENSATION AND CONTRACT RIGHTS. The Board of Directors shall have authority (a) to fix the compensation, whether in the form of salary, bonus, stock options or otherwise, of all officers and employees of the Corporation, either specifically or by formula applicable to particular classes of officers or employees, and (b) to authorize officers of the Corporation to fix the compensation of subordinate employees. The Board of Directors shall have authority to appoint a Compensation Committee and may delegate to such committee any or all of its authority relating to compensation. The appointment of an officer shall not of itself create contract rights.

4.6 RESIGNATION OR REMOVAL. Any officer of the Corporation may resign at any time by giving written notice to the Board of Directors. Any such resignation is effective when the notice is delivered, unless the notice specifies a later date, and shall be without prejudice to the contract rights, if any, of such officer.

The Board of Directors, by majority vote of the entire Board, may remove any officer or agent, with or without cause. An officer or assistant officer, if appointed by another officer, may also be removed by any officer authorized to appoint officers or assistant officers. The removal shall be without prejudice to the contract rights, if any, of the person so removed.

4.7 VACANCIES. If any office becomes vacant by any reason, the directors may appoint a successor or successors who shall hold office for the unexpired term or leave such office vacant.

ARTICLE V

CERTIFICATES OF SHARES AND THEIR TRANSFER

5.1 ISSUANCE; CERTIFICATES OF SHARES. No shares of the Corporation shall be issued unless authorized by the Board. Such authorization shall include the maximum number of shares to be issued, the consideration to be received, and a statement that the Board considers the consideration to be adequate. Shares may but need not be represented by certificates. Certificates for shares of the Corporation shall be in such form as is consistent with the provisions of the WBCA or the law of a predecessor corporation and after the effective date of these Bylaws shall state:

- a. The name of the Corporation and that the Corporation is organized under the laws of the State of Washington;
- b. The name of the person to whom issued; and
- c. The number and class of shares and the designation of the series, if any, which such certificate represents.

The certificate shall be signed by original or facsimile signature of two officers of the Corporation, and the seal of the Corporation may be affixed thereto.

5.2 TRANSFER OF STOCK. Shares of stock represented by certificates may be transferred by delivery of the certificate accompanied by either an assignment in writing on the back of the certificate or by a written power of attorney to assign and transfer the same on the books of the Corporation, signed by the record holder of the certificate. The shares shall be transferable on the books of the Corporation upon surrender thereof so assigned or endorsed.

5.3 RULES AND REGULATIONS CONCERNING THE ISSUE, TRANSFER AND REGISTRATION OF SHARES. The Board of Directors shall have power and authority to make all such rules and regulations as the Board may deem proper or expedient concerning the issue, transfer and registration of shares of stock. In case of the loss, mutilation, or destruction of a certificate of stock, a duplicate certificate may be issued upon such terms as the Board shall authorize. The Board shall have power and authority to appoint from time to time one or more transfer agents and registrar of the shares of stock.

5.4 SHARES WITHOUT CERTIFICATES. The Board of Directors may authorize the issue of some or all of the shares without certificates. Within a reasonable time after the issue or transfer of shares without certificates, the corporation shall send the shareholder a written statement of the information required on certificates by the WBCA.

ARTICLE VI

BOOKS AND RECORDS

6.1 BOOKS OF ACCOUNTS, MINUTES, AND SHARE REGISTER. Except as otherwise provided by law the Corporation:

- a. Shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the Board of

Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the Corporation;

b. Shall maintain appropriate accounting records;

c. Or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each; and

d. Shall keep a copy of the following records at its principal office:

(1) The Articles or Restated Articles of Incorporation and all amendments to them currently in effect;

(2) The Bylaws or Restated Bylaws and all amendments to them currently in effect;

(3) The minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three (3) years;

(4) Its financial statements for the past three (3) years, including balance sheets showing in reasonable detail the financial condition of the Corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein;

(5) All written communications to shareholders generally within the past three (3) years;

(6) A list of the names and business addresses of its current directors and officers; and

(7) Its most recent annual report delivered to the Secretary of State of Washington.

6.2 COPIES OF RESOLUTIONS. Any person dealing with the Corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the Secretary, an assistant secretary, or other officer authorized by the Board.

MICROSOFT CORPORATION

1991 STOCK OPTION PLAN, AS AMENDED

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 Stock" shall mean the common stock 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) "Disinterested Person" shall have the same meaning as defined in Rule 16b-3(c)(2) promulgated by the Securities and Exchange Commission pursuant to its authority under the Exchange Act.

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

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

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

(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 Stock" shall mean the Common Stock 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 share of Common Stock, as adjusted in accordance with Section 11 of the Plan.

(s) "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock 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 160,000,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

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, unless the Plan shall have been terminated, become available for future grant under the 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 only be made by a Committee of two or more directors, each of whom is a Disinterested Person and an Outside Director.

(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 Common Stock; (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; (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 each 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 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.

(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. Notwithstanding the foregoing, William H. Gates III is not eligible to participate in the Plan. 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 1,000,000 shares (the "Maximum Annual Employee Grant").

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect until August 16, 2001, unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be no more than ten (10) years from the date of grant. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock 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 stock representing more than ten percent (10%) of the voting power of all classes of stock 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 Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System on the date of grant. If the Common Stock ceases to be listed on the NASDAQ National Market System, the Board shall designate an alternative method of determining the fair market value of the Common Stock.

(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 of Common Stock. 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 of Common Stock 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 following provisions shall apply to such elections: (i) if an Optionee has received multiple Options, a separate election must be made for each Option;

(ii) the election may be a "standing election", i.e., upon making an election, a fixed date need not be set for the exercise of the Option to which the election relates; (iii) the election will be subject to the approval or disapproval of the Board, which approval or disapproval may be given at any time after the election to which it relates; (iv) the election may not be made within six months following the date of grant of the Option to which it relates; (v) the election must be made six months prior to the day the Option is exercised, or both the election and exercise must be made in the ten-day "window period" beginning on the third day following the release of the Company's quarterly or annual summary statement of sales and earnings; and (vi) an election may be revoked, or may be reinstated after a revocation, only upon six months' prior notice.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. 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 stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock 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 stock certificate evidencing the Shares treated as acquired upon the exercise of an Incentive Stock Option and a separate stock certificate evidencing the Shares treated as acquired upon the exercise of a Nonqualified Stock Option, and shall identify each such certificate accordingly in its stock transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock 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 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.

11. Adjustments Upon Changes in Capitalization or Merger. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, the Maximum Annual Employee Grant and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock 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 Stock, 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 Stock, 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, the following revisions or amendments shall require approval of or ratification by the stockholders of the Company:

(i) any increase in the number of Shares subject to the Plan, other than in connection with an adjustment under Section 11 of the Plan; or

(ii) if the Company has a class of equity securities registered under Section 12 of the Exchange Act at the time of such revision or amendment, any change which would require stockholder approval pursuant to Rule 16b-3 promulgated by the Securities and Exchange Commission pursuant to its authority under the Exchange Act.

(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. 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. Stockholder Approval. The Plan is subject to approval by the shareholders of the Company at the Annual Meeting of Shareholders to be held on October 29, 1993. 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 split in May 1994.]

MICROSOFT CORPORATION
STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS, AS AMENDED

1. Purpose

The purpose of the Microsoft Corporation Stock Option Plan for Non-Employee Directors (the "Plan") is to attract and retain the services of experienced and knowledgeable independent directors of Microsoft Corporation (the "Corporation") for the benefit of the Corporation and its stockholders and to provide additional incentive for such directors to continue to work for the best interests of the Corporation and its stockholders through continuing ownership of its common stock.

2. Shares Subject to the Plan

The total number of shares of common stock ("Shares"), of the Corporation for which options may be granted under the Plan shall not exceed 2,250,000 in the aggregate, subject to adjustment in accordance with Section 12 hereof. Within the foregoing limitations, Shares for which options have been granted pursuant to the Plan but which options have lapsed or otherwise terminated shall become available for the grant of additional options. There will initially be reserved for issuance or transfer from the Corporation's treasury upon the exercise of options granted under the Plan 2,250,000 Shares, subject to adjustment in accordance with Section 13 hereof.

3. Administration of Plan

All aspects of the Plan relating to non-discretionary options shall be administered by the Board of Directors of the Corporation. All aspects of the Plan relating to the grant of discretionary options pursuant to Section 5, and all administrative functions relating to discretionary options, shall be handled by a Board committee of two or more directors, each of whom is a "disinterested person" (as that term is defined in Rule 16b-3(c)(2) promulgated by the Securities and Exchange Commission pursuant to its authority under the Securities Exchange Act of 1934). The Board of the Committee, as the case may be, shall have the power to construe the Plan, to determine all questions arising thereunder, and to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable. References to the "Board" in this Plan shall be deemed to refer to either the Board or the Committee, whichever is appropriate in the context in which the word is used.

4. Grant of Non-Discretionary Options

Each director who (a) satisfies all of the following criteria:

- (i) such person is not, and has not during the immediately preceding 12 month period been, an employee of the Corporation or any subsidiary of the Corporation;

(ii) such person does not own any common stock of the Corporation which (x) he acquired directly from the Corporation and (y) is currently subject to any contractual provision whereby such stock is either forfeitable or subject to mandatory resale to the Corporation on the occurrence of certain specified events; and

(iii) such person does not hold any unvested stock options to purchase common stock of the Corporation, except for non-discretionary stock options previously granted pursuant to this Section 4 of the Plan.

and (b) who is in office on November 30 of any year (commencing with November 30, 1989) shall, on the immediately succeeding January 1, automatically be granted an option to acquire 5,000 Shares under the Plan.

5. Discretionary Option Grants for New Directors

An option may be granted by the Board in its discretion to any person who (i) is elected a director of the Corporation, (ii) has not previously served as a director of the Corporation, and (iii) at the time of his election, satisfied criterion (a)(i) of Section 4 above. No options under this Section 5 may be granted for more than 50,000 shares. An option under this Section 5 must be granted either on the date the new director is first elected as a director or on a prior date, but any option granted on a prior date shall be conditioned on the election of the optionee as a director. No director shall be eligible for an option grant under this Section 5 after the date he is first elected as a director.

6. Option Agreement

Each option granted under the Plan shall be evidenced by an option agreement (the "Agreement") duly executed on behalf of the Corporation and by the director to whom such option is granted, which Agreements may but need not be identical and which shall (i) comply with and be subject to the terms and conditions of the Plan and (ii) provide that the director agrees to continue to serve as a director of the Corporation during the term for which he or she was elected. Any Agreement may contain such other terms, provisions, and conditions not inconsistent with the Plan as may be determined by the Board. No option shall be deemed granted within the meaning of the Plan and no purported grant of any option shall be effective, until such Agreement shall have been duly executed on behalf of the Corporation and the director to whom the option is to be granted.

7. Option Exercise Price

(a) The option exercise price for a non-discretionary option granted pursuant to Section 4 of the Plan shall be the fair market value of the Shares covered by the option on the date of grant, or, if such date is not a day on which Shares are traded, on the trading day (the "Pricing Date"), immediately preceding the date on which the option is granted.

(b) The option exercise price for a discretionary option granted pursuant to Section 5 of the Plan shall be set by the Board in its discretion.

(c) For purposes hereof, the fair market value of the Shares covered by an option shall be the closing price of the Shares on the applicable date as reported in the National Market List of the National Association of Securities Dealers Inc. Automated Quotation System or on the principal national securities exchange on which the Shares are then listed for trading.

8. Time and Manner of Exercise of Option

(a) Non-discretionary options granted pursuant to Section 4 of the Plan shall not be immediately exercisable, but shall become exercisable in full upon the first anniversary of the date of grant.

(b) The exercisability of discretionary options pursuant to Section 5 of the Plan shall be set by the Board in its discretion and shall be memorialized in the Agreement between the Corporation and the director to whom the option is granted.

(c) To the extent that the right to exercise an option has accrued and is in effect, the option may be exercised from time to time, by giving written notice, signed by the person or persons exercising the option, to the Corporation, stating the number of Shares with respect to which the option is being exercised, accompanied by payment in full for such Shares, which payment may be in whole or in part in shares of the common stock of the Corporation already owned by the person or persons exercising the option, valued at fair market value on the date of payment (as determined pursuant to Section 7(c) hereof).

(d) Upon exercise of the option, delivery of a certificate for fully paid and non-assessable Shares shall be made at the principal office of the Corporation in the State of Washington to the person or persons exercising the option as soon as practicable (but in no event more than 30 days) after the date of receipt of the notice of exercise by the Corporation, or at such time, place, and manner as may be agreed upon by the Corporation and the person or persons exercising the option.

9. Term of Options

Each option shall expire ten years from the date of the granting thereof, but shall be subject to earlier termination as follows:

(a) In the event of the death of an option holder, the option granted to such person may be exercised, to the extent exercisable on the date of death pursuant to Section 8(a) or (b), by the estate of such person, or by any person or persons who acquired the right to exercise such option by will or by the laws of descent and distribution. Such option may be exercised at any time within 180 days after the date of death of such person or prior to the date on which the option expires by its terms, whichever is earlier.

(b) In the event that an option holder ceases to be a director of the Corporation, other than by reason of his or her death, the option granted to such person may be exercised, to the extent exercisable on the date such person ceases to be a director, for a period of 30 days after such date, or prior to the date on which the option expires by its terms, whichever is earlier.

10. Merger, Consolidation, Sale of Assets, etc., Resulting in a Change in Control

(a) In the event of a Change in Control (as hereinafter defined), notwithstanding the provisions of Sections 8 and 9, an option granted to a director pursuant to the Plan shall become fully exercisable if, within one year of such Change in Control, such director shall cease for any reason to be a member of the Board. For purposes hereof, a Change in Control of the Corporation shall be deemed to have occurred if (i) there shall be consummated (x) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the common stock of the Corporation would be converted into cash, securities, or other property, other than a merger of the Corporation in which the holders of the common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation; or (ii) the stockholders of the Corporation approve any plan or proposal for the liquidation or dissolution of the Corporation; or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), other than William H. Gates, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Corporation's outstanding common stock; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Corporation's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(b) Any exercise of an option permitted pursuant to Section 10(a) shall be made within 180 days of the related director's termination as a director of the Corporation.

11. Options Not Transferable

The right of any director to exercise an option granted to him or her under the Plan shall not be assignable or transferable by such person otherwise than by will or the laws of descent and distribution, and any such option shall be exercisable during the lifetime of such person only by him or her.

12. No Rights as Stockholder Until Exercise

Neither the recipient of an option under the Plan nor his successors in interest shall have any rights as a stockholder of the Corporation with respect to any Shares subject to an option granted to such person until such person becomes a holder of record of such Shares.

13. Adjustments Upon Changes in Capitalization or Merger

Subject to any required action by the shareholders of the Corporation, the number of shares of common stock covered by each outstanding option, and the number of shares of common stock which have been authorized for issuance under the Plan but as to which no options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an option, as well as the price per share of common stock covered by each outstanding option, shall be

proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the common stock, or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by the Corporation; provided, however, that conversion of any convertible securities of the Corporation shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of common stock subject to an option.

In the event of the proposed dissolution or liquidation of the Corporation, an outstanding 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 option holder the right to exercise an option as to all or any part of the stock covered by such option, 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 Corporation, or the merger of the Corporation 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 each option or to substitute an equivalent option, in which case the Board shall, in lieu of such assumption or substitution, provide for the option holder to have the right to exercise such option as to all of the stock covered by such option, including Shares as to which such 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 option holder 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.

14. Restrictions on Issue of Shares

Anything in this Plan to the contrary notwithstanding, the Corporation may delay the issuance of Shares covered by the exercise of any option and the delivery of a certificate for such Shares until one of the following conditions shall be satisfied:

(a) the Shares with respect to which an option has been exercised are at the time of the issue or transfer of such Shares effectively registered under applicable federal securities laws now in force or hereafter amended; or

(b) counsel for the Corporation shall have given an opinion, which opinion shall not be unreasonably conditioned or withheld, that such Shares are exempt from registration under applicable federal securities laws now in force or hereafter amended.

It is intended that all exercises of options shall be effective. Accordingly, the Corporation shall use its best efforts to bring about compliance with the above conditions within a reasonable time, except that the Corporation shall be under no obligation to cause a registration statement or a

post-effective amendment to any registration statement to be prepared at its expense solely for the purpose of covering the issuance or transfer from the Corporation's treasury of Shares in respect of which any option may be exercised.

15. Purchase for Investment

Unless the Shares to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933 as now in force or hereafter amended, the Corporation shall be under no obligation to issue or transfer any Shares covered by any option unless the person or persons who exercise such option, in whole or in part, shall give a written representation and undertaking to the Corporation, which is satisfactory in form and scope to counsel to the Corporation and upon which, in the opinion of such counsel, the Corporation may reasonably rely, that he or she is acquiring the shares issued or transferred to him or her for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution for any such Shares, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if Shares are issued or transferred without such registration a legend to this effect may be placed upon the certificates representing the Shares.

16. Effective Date

The effective date (the "Effective Date") of this Plan shall be the date on which the Plan is approved by stockholders of the corporation.

17. Expenses of the Plan

All costs and expenses of the adoption and administration of the Plan shall be borne by the Corporation and none of such expenses shall be charged to any director.

18. Termination and Amendment of Plan

Unless sooner terminated as herein provided, the Plan shall terminate ten years from the Effective Date. The Board may at any time terminate the Plan or make such modification or amendment thereof as it deems advisable; provided, however, that, except as provided in Section 13, the Board may not, without the approval of the stockholders of the Corporation, (i) increase the maximum aggregate number of shares for which options may be granted under the Plan, (ii) increase the size of the non-discretionary option grants to individual directors, (iii) change the method of setting the option exercise price for non-discretionary options, or (iv) make any other change which would require shareholder approval pursuant to Rule 16b-3. In addition, the provisions in the Plan regarding the amount, pricing, timing, and class of persons eligible for non-discretionary grants shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder. Termination or any modification or amendment of the Plan shall not, without the consent of an option holder, affect his or her rights under an option previously granted to him or her.

[As amended through April 24, 1993. The number of shares in Section 2 has been increased to reflect stock splits through May 1994]

MICROSOFT CORPORATION
STOCK OPTION PLAN
FOR CONSULTANTS AND ADVISORS, AS AMENDED

1. Purposes of the Plan. The purposes of this Stock Option Plan are to attract and maintain a long-term relationship with the best available consultants and advisors, to provide additional incentive to such individuals, and to promote the success of the Company's business. Options granted hereunder shall be Nonqualified Stock Options, and shall be evidenced by written Stock Option Agreements.

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.

(d) "Common Stock" shall mean the common stock of Microsoft Corporation.

(e) "Company" shall mean Microsoft Corporation, a Washington corporation.

(f) "Continuous Status as a Consultant or Advisor" shall mean the absence of any interruption, expiration, or termination of an Optionee's consulting or advisory relationship with the Company. Continuous Status as a Consultant or Advisor shall not be considered interrupted 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; provided, however, that the Company may require suspension of vesting in such cases. Continuous Status as a Consultant or Advisor shall not be considered terminated if such person accepts employment with the Company, and thereafter a person's Continuous Status as an Employee, and the effects of an interruption or termination thereof (including by reason of death or disability), shall be determined with reference to the Company's 1991 Stock Option Plan.

(g) "Nonqualified Stock Option" shall mean an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(h) "Option" shall mean a stock option granted pursuant to the Plan.

(i) "Optioned Stock" shall mean the Common Stock subject to an Option.

(j) "Optionee" shall mean any consultant or advisor who receives an Option.

(k) "Plan" shall mean this Stock Option Plan for Consultants and Advisors.

(1) "Share" shall mean one share of Common Stock, as adjusted in accordance with Section 11 of the Plan.

3. Stock 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 300,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

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, unless the Plan shall have been terminated, become available for future grant under the 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 a Committee, 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 Committee shall continue to serve until otherwise directed by the Board of Directors.

(2) The Board of Directors may, from time to time, increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan.

(b) Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Nonqualified Stock Options; (ii) to determine, in accordance with Section 8(b) of the Plan, the fair market value of the Common Stock; (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 individuals 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; (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 each 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 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.

(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 to consultants and advisors who provide consulting services to the Company. In no event shall any employees (full-time or part-time) of the Company be eligible for the grant of an Option under the Plan. Notwithstanding the foregoing, the fact that an Optionee

subsequently becomes an employee of the Company shall not affect such Optionee's Option, so long as the Optionee's Continuous Status as a Consultant or Advisor was uninterrupted prior to his or her commencement of employment with the Company.

(b) Nothing in the Plan or any Option granted hereunder shall confer upon any Optionee any right to continue or require the continuance of the Optionee's consulting or advisory relationship with the Company, nor shall it interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board and shall continue in effect for ten (10) years, unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be no more than ten (10) 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, which 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 Stock on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System on the date of grant. If the Common Stock ceases to be listed on the NASDAQ National Market System, the Board shall designate an alternative method of determining the fair market value of the Common Stock.

(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.

(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.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. 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 stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

The 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 Consulting Relationship with Optionee.

In the event of termination of an Optionee's Continuous Status as a Consultant or Advisor, 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) Termination of Consulting Relationship Due to

Disability of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of termination of an Optionee's Continuous Status as a Consultant or Advisor 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), such Optionee may exercise stock options to the extent exercisable on the date of termination. Such exercise must occur within eighteen (18) 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 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 a consultant or advisor to 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 Personal Representative 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 as of the date of death; or

(ii) whose Option has not yet expired, but whose Continuous Status as a Consultant or Advisor 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 Personal Representative 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 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 Optionee's Continuous Status as a Consultant or Advisor 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.

11. Adjustments Upon Changes in Capitalization or Merger. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from stock split, reverse stock split, stock dividend, combination, or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reasons thereof shall be made with respect to, the number or price of shares of Common Stock 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 Stock, 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, the 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 Stock, 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 Board makes the determination granting such Option. Notice of the determination shall be given to each consultant or advisor to whom an Option is so granted within a reasonable time after the date of such grant.

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.

(b) Effect of Amendment or Termination. 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 to thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, 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.

[The number of shares in Section 3 has been adjusted for stock splits in 1992 and 1994.]

EXHIBIT 10.5

MICROSOFT CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLAN, AS AMENDED

MICROSOFT CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLAN

Microsoft Corporation (the "Company") does hereby establish its 1991 Employee Stock Purchase Plan as follows:

1. Purpose of the Plan. The purpose of this Plan is to provide eligible employees who wish to become shareholders in the Company a convenient method of doing so. It is believed that employee participation in the ownership of the business will be to the mutual benefit of both the employees and the Company. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that Section of the Code.

2. Definitions.

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

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

3. Employees Eligible to Participate. Any regular employee of the Company or any of its subsidiaries who is in the employ of the Company on one or more offering dates is eligible to participate in the Plan, except (a) employees whose customary employment is 20 hours or less per week, and (b) employees whose customary employment is for not more than five months in any calendar year.

4. Offerings. There will be twelve separate consecutive six-month offerings pursuant to the Plan. The first offering shall commence on January 1, 1991. Thereafter, offerings shall commence on each subsequent July 1 and January 1, and the final offering under this Plan shall commence on July 1, 1996 and terminate on December 31, 1996. In order to become eligible to purchase shares, an employee must sign an Enrollment Agreement, and any other necessary papers on or before the commencement date (January 1 or July 1) of the particular offering in which he wishes to participate. Participation in one offering under the Plan shall neither limit, nor require, participation in any other offering.

5. Price. The purchase price per share shall be the lesser of (1) 85% of the fair market value of the stock on the offering date; or (2) 85% of the fair market value of the stock on the last business day of the offering. Fair market value shall mean the closing bid price as reported on the National Association of Securities Dealers Automated Quotation System or, if the stock is traded on a stock exchange, the closing price for the stock on the principal such exchange.

6. Offering Date. The "offering date" as used in this Plan shall be the commencement date of the offering, if such date is a regular business day, or the first regular business day following such commencement date. A different date may be set by resolution of the Board.

7. Number of Shares to be Offered. The maximum number of shares that will be offered under the Plan is 6,750,000. The shares to be sold to participants under the Plan will be common stock of the Company. If the total number of shares for which options are to be granted on any date in accordance with Section 10 exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available in as nearly

a uniform manner as shall be practicable and as it shall determine to be equitable. In such event, the payroll deductions to be made pursuant to the authorizations therefor shall be reduced accordingly and the Company shall give written notice of such reduction to each employee affected thereby.

8. Participation.

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

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

9. Payroll Deductions.

9.1 At the time a participant files his authorization for a payroll deduction, he shall elect to have deductions made from his pay on each payday during the time he is a participant in an offering at the rate of 2%, 4%, 6%, 8%, or 10% of his base pay.

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

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

10. Granting of Option. On the offering date, this Plan shall be deemed to have granted to the participant an option for as many full shares as he will be able to purchase with the payroll deductions credited to his account during his participation in that offering. Notwithstanding the foregoing, no participant may purchase more than 2,250 shares of stock during any single offering.

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

12. Employee's Rights as a Shareholder. No participating employee shall have any right as a shareholder with respect to any shares until the shares have been purchased in accordance with Section 11 above and the stock has been issued by the Company.

13. Evidence of Stock Ownership.

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

13.2 The participant may direct, by written notice to the Company at the time of his enrollment in the Plan, that his ESPP Broker account be established in the names of the participant and one other person designated by the participant, as joint tenants with right of survivorship, tenants in common, or community property, to the extent and in the manner permitted by applicable law.

13.3 A participant shall be free to undertake a disposition (as that term is defined in Section 424(c) of the Code) of the shares in his account at any time, whether by sale, exchange, gift, or other transfer of

legal title, but in the absence of such a disposition of the shares, the shares must remain in the participant's account at the ESPP Broker until the holding period set forth in Section 423(a) of the Code has been satisfied. With respect to shares for which the Section 423(a) holding period has been satisfied, the participant may move those shares to another brokerage account of participant's choosing or request that a stock certificate be issued and delivered to him.

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

14. Withdrawal.

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

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

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

16. Interest. No interest will be paid or allowed on any money in the accounts of participating employees.

17. Rights Not Transferable. No employee shall be permitted to sell, assign, transfer, pledge, or otherwise dispose of or encumber either the payroll deductions credited to his account or any rights with regard to the exercise of an option or to receive shares under the Plan other than by will or the laws of descent and distribution, and such right and interest shall not be liable for, or subject to, the debts, contracts, or liabilities of the employee. If any such action is taken by the employee, or any claim is asserted by any other party in respect of such right and interest whether by garnishment, levy, attachment or otherwise, such action or claim will be treated as an election to withdraw funds in accordance with Section 14.

18. Termination of Employment. Upon termination of employment for any reason whatsoever, including but not limited to death or retirement, the balance in the account of a participating employee shall be paid to the employee or his estate.

19. Amendment or Discontinuance of the Plan. The Board shall have the right to amend, modify, or terminate the Plan at any time without notice, provided that no employee's existing rights under any offering already made under Section 4 hereof may be adversely affected thereby, and provided further that no such amendment of the Plan shall, except as provided in Section 20, increase above 6,750,000 the total number of shares to be offered unless shareholder approval is obtained therefor.

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

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

22. Administration. The Plan shall be administered by the Board. The Board shall be vested with full authority to make, administer, and interpret such rules and regulations as it deems necessary to administer the Plan, and any determination, decision, or action of the Board in connection with the construction, interpretation, administration, or application of the Plan shall be final, conclusive, and binding upon all participants and any and all persons claiming under or through any participant.

The Board may delegate any or all of its authority hereunder to such committee as it may designate.

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

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

24.1 December 31, 1996;

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

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

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

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

26. Governmental Regulation. The Company's obligation to sell and deliver shares of the Company's common stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance, or sale of such shares.

[The number of shares set forth in Sections 7, 10, and 19 have been changed to reflect the effect of three-for-two stock splits in 1991 and 1992, and a two-for-one stock split in 1994.]

MICROSOFT CORPORATION
SAVINGS PLUS PLAN, AS AMENDED

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ARTICLE I
DEFINITIONS

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

1.1 BENEFCIARY means a person designated by a participant, or by this Plan if there is no effective designation, to receive benefits payable under this Plan in the event of the participant's death.

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

1.3 COMPENSATION is defined and limited as set forth in Appendix I, attached hereto and incorporated herein.

1.4 EMPLOYEE means any common law employee of the employer who receives remuneration for personal services rendered to the employer, and any "leased employee" as defined in Code Section 414 (n)(2).

1.5 ELIGIBLE EMPLOYEE means a regular employee of the employer who satisfies the eligibility requirements of section 2.1. For purposes of this Plan, a "regular employee" of the employer is an employee who is in an approved headcount position with the employer and on the employer's payroll. An approved headcount position is one which is (1) authorized in writing during the annual or out-of-cycle budgeting process and approved by an officer of Microsoft (or by a Regional Director for positions in subsidiaries of Microsoft) and (2) on the official human resources database of Microsoft or one of its subsidiaries. An employee is on an employer's payroll if the employee is paid from the payroll department of the employer (including payroll departments of the employer's foreign branches, but not subsidiaries) and the employer withholds U.S. employment taxes (e.g., income tax, FICA) from the employee's pay. Notwithstanding the foregoing, the following are not eligible employees and are not eligible to participate in this Plan even if they meet the definition of regular employee of the employer:

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

e. employees covered by a collective bargaining agreement resulting from negotiations in which retirement benefits were the subject of good faith bargaining and participation in this Plan was not provided for;

f. leased employees (including leased employees as defined in Code Section 414(n)(2));

g. temporary employees hired through or employed by temporary or leasing agencies;

h. temporary employees of the employer; and

i. workers who hold themselves out to the employer as being independent contractors, or as being employed by another company while providing services to the employer. For purposes of this Plan, a temporary employee is one who is hired to work on a specific project or series of projects which in the aggregate is not expected to exceed six (6) months. This definition of Eligible Employee is added effective July 1, 1994.

1.6 EMPLOYER means MICROSOFT CORPORATION and any subsidiary or affiliate of Microsoft Corporation which, with MICROSOFT CORPORATION's approval, elects to adopt the Plan for its employees. Employers maintaining the Plan are listed in Appendix II, attached hereto and incorporated herein. Microsoft Corporation shall have sole discretionary authority over the Plan, including, without limitation, authority to amend the Plan and appoint fiduciaries. For purposes of applying to this Plan Code Sections 401, 410, 411, 414 and 415, which sections relate to tax-qualified plans generally, to minimum participation standards, to minimum vesting standards, to compensation, and to limitations on benefits and contributions under qualified retirement plans, all employees of businesses under common control, as defined in Code Section 414(b) and (c), employees of affiliated service groups under Code Section 414(m), and employees of any group of employers who must be aggregated and treated as one employer pursuant to Code Section 414(o), shall be considered to be employed by the employer.

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

1.8 PARTICIPANT means an employee who meets the eligibility requirements of Article II and who has entered the Plan by electing to defer compensation. An employee shall be considered a participant as long as one or more accounts are maintained under this Plan on his or her behalf.

1.9 PLAN means the MICROSOFT CORPORATION SAVINGS PLUS PLAN set forth in this document, as amended from time to time.

1.10 PLAN ADMINISTRATOR means the vice president of finance and administration. Effective July 1, 1994, Plan Administrator means the Vice President, Human Resources.

1.11 PLAN YEAR, effective January 1, 1993, means the twelve month period beginning January 1 and ending December 31. Prior to January 1, 1993, "Plan Year" meant the twelve month period beginning April 1 and ending March 31.

1.12 TRUST FUND means the assets of the trust established and maintained according to the provisions of this Plan.

1.13 TRUSTEE means any individual, life insurance company, bank or trust company or a combination of the foregoing, which the employer has designated to manage and invest the assets of the Plan.

ARTICLE II

ELIGIBILITY TO PARTICIPATE IN PLAN

2.1 ELIGIBILITY AND ENTRY DATE. Each eligible employee who is 18 years of age or older and who has been employed with the employer for six months shall be eligible to participate in this Plan except as provided in this Article II. The eligible employee shall be eligible to elect to defer a percentage of his or her compensation as of the first day of the month coinciding with or occurring after the date the eligibility requirements are met. Preparticipation service with certain companies as set forth in Appendix II, attached hereto and incorporated herein, shall be counted toward eligibility. The amendment of the term "employee" to "eligible employee" in this Section 2.1 is effective July 1, 1994.

2.2 REEMPLOYMENT. If a former plan participant is reemployed as an eligible employee, that person shall be eligible to participate as of, the first day of the month coinciding with or occurring after his or her reemployment.

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

ARTICLE III

EMPLOYEE CONTRIBUTIONS

3.1 ELECTION TO DEFER. Each participant may elect, in the manner provided by the Plan Administrator, to contribute from 1% to 15% of his or her compensation to a salary deferral account under the Plan, except that such contribution shall not exceed the annual limitation on elective deferrals under Code Section 402(g) in any taxable year, which limitation is increased as permitted by Internal Revenue Service publication to reflect cost-of-living adjustments (\$9,240 for 1994). The employer may, from time to time, change the percentage of salary that may be deferred. Except as authorized by the Plan Administrator, all such contributions shall be by payroll reduction. Contributions shall be transferred to the trust fund within 60 days.

3.2 DEFERRAL ELECTION DATES. On entering the Plan initially or upon reemployment, an employee may elect to contribute as of the day he or she is eligible to enter the Plan. All other employees or participants may elect to contribute, or to change their contribution percentage, effective as of any January 1, April 1, July 1, and October 1, which dates may be changed from time to time by the Plan Administrator. An election to contribute may be made on any date prior to the effective date of the election, in the manner provided by the Plan Administrator.

3.3 TERMINATING AN ELECTION TO DEFER. A participant may terminate an election to contribute as of the first day of any month, provided notice of termination has been given by the fifteenth day of the previous month in the manner provided by the Plan Administrator. If an employee terminates an election to contribute, he or she must wait five months (prior to July 1, 1994, three months) before being eligible again to elect to contribute as of a January 1, April 1, July 1, or October 1 following the five-month (prior to July 1, 1994, three-month) waiting period.

3.4 DISTRIBUTION OF EXCESS DEFERRALS. Notwithstanding any other provision of the Plan, excess deferrals (amounts in excess of the annual limitation on elective deferrals under Code Section 402(g), as increased by a cost of living factor) and income allocable thereto may be distributed no later than April 15 to participants who claim for the preceding calendar year such excess deferrals under two or more plans or to participants who have such excess deferrals under this Plan. A participant may allocate excess deferrals to this Plan by submitting to the Plan Administrator no later than March 1 a statement specifying the excess deferral amount for the preceding calendar year and stating that, if such amount is not distributed, such excess deferral, when added to amounts deferred under other plans, exceeds the applicable annual limit. The excess deferrals distributed to a participant with respect to a calendar year shall be adjusted for income and, if there is a loss allocable to the excess deferral, shall in no event be less than the lesser of the participant's account under the Plan or the participant's elective deferrals for the calendar year.

ARTICLE IV

EMPLOYER MATCHING CONTRIBUTIONS AND FORFEITURES

4.1 EMPLOYER MATCHING CONTRIBUTIONS. The employer shall contribute funds to the Plan, from its current or retained profits, to match a portion of each participant's salary deferral. The employer contribution shall match 50% of each participant's contribution in any plan year up to six percent of the participant's compensation for the plan year, for a maximum employer matching contribution of three percent of compensation. The matching contribution shall be allocated to the participant's employer contribution account. The employer may from time to time change the amount of the employer matching contribution, provided any decrease in the matching contribution formula must be effective only for matching elective deferrals after the date of change. Total employer contributions for any plan year shall not exceed the maximum amount which is deductible by the employer for federal income tax purposes. The employer contribution shall be transferred to the trust fund at such times as the employer determines, but such contributions shall in no event be transferred to the trust fund later than the time prescribed by law for the employer to obtain a federal income tax deduction for the plan year for which the contribution is made. Employer contributions shall be credited to participants' employer contribution accounts as of the date of receipt by the plan.

4.2 ALLOCATION OF FORFEITURES. As of the end of each plan year forfeitures which have become available for distribution during such year shall be allocated among the employer contribution accounts of participants employed on the last day of the plan year in the same proportion as the employer matching contribution allocated to each such account bears to the aggregate employer contributions allocated to all such accounts for the plan year.

ARTICLE V

VESTING - YEARS OF SERVICE

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

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

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

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

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

5.4 HOUR OF SERVICE. An hour of service means each hour for which an employee is paid or entitled to payment for the performance of duties for the employer.

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

5.6 FORFEITURES. There shall be no forfeiture of any nonvested or forfeitable interest of any terminating participant until the terminating participant has had a one-year period of severance. Such non-vested interests of terminated participants shall be held by the trustee in a separate forfeiture suspense account until the expiration of a one-year period of severance when the forfeitures shall be available for distribution as set forth in Article IV. If the participant is reemployed before sustaining five consecutive one-year periods of severance, any amount forfeited shall be restored to his or her employer contribution account, unadjusted by any gains or losses.

ARTICLE VI

PARTICIPANTS' ACCOUNTS AND INVESTMENTS

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

6.2 INVESTMENT FUNDS. The trust fund shall consist of the following investment funds: common stock funds, bond funds, income funds, money market funds, and the Microsoft Corporation stock fund. The employer may change the investment funds from time to time. Each participant and former participant shall direct the trustee as to what portion of his or her accounts shall be deposited in each fund (or, in the case of a Participant loan pursuant to Article XIX, what portion of his or her account shall be loaned). If a participant or former participant wishes to utilize more than one investment fund, he or she shall designate the percentage of his or her account balances to be invested in each fund, and the percentages designated shall be in 10% increments. The trust fund may hold qualified employer securities and qualified employer real estate in any amount. The Plan is intended to constitute a plan described in ERISA Section 404(c), and the fiduciaries of the Plan may be relieved in accordance with ERISA Section 404(c) of liability for any losses which are the direct and necessary result of investment instructions given by a participant or former participant.

6.3 CHANGING ACCOUNT INVESTMENTS. A change in the designation of investment funds may be made effective as of any January 1, April 1, July 1, and October 1 of each year. The dates for changing investment funds may be changed from time to time by the Plan Administrator.

6.4 PROCEDURES. The Plan Administrator shall adopt such rules and procedures as it deems advisable with respect to all matters relating to the selection and use of the investment funds.

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

ARTICLE VII

PAYMENT OF ACCOUNT BALANCES UPON
TERMINATION, DEATH, DISABILITY,
QUALIFIED DOMESTIC RELATIONS ORDERS,
SALE OF TRADE OR BUSINESS

7.1 TERMINATION OF EMPLOYMENT. Upon termination of employment for any reason other than death or disability, the participant shall elect either to receive his or her balances upon termination or upon reaching age 65, except that if the value of the participant's accounts does not exceed \$3,500 (and did not exceed \$3,500 at the time of any prior distribution), payment shall be made upon termination. Account balances shall be valued as of the most recent valuation date prior to date of payment and shall be paid in a single cash payment, except that the participant or former participant may elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund. Account balances shall be distributed no later than 60 days after the latest of (i) the plan year in which the participant terminates or (ii) the plan year in which the participant reaches age 65. Notwithstanding the foregoing, a person's entire interest must be distributed, or must begin to be distributed, no later than the first day of April following the calendar year in which the participant reaches age 70-1/2.

7.2 PAYMENT AT 59-1/2. A participant may elect to receive a distribution of all or a portion of his or her account balance or balances under this Plan in a single sum payment upon or after reaching age 59-1/2.

7.3 PAYMENT OF ACCOUNT BALANCES UPON DEATH. If a participant dies while employed, his or her employer contribution account shall be 100% vested. Each participant shall designate a beneficiary or beneficiaries to receive all amounts credited to his or her accounts in the event of the participant's death. The accounts shall be valued as of the most recent valuation date prior to payment and shall be paid in a single cash payment to the designated beneficiary or beneficiaries as soon as feasible after the death. If a participant is married, the participant may not designate a beneficiary other than his or her spouse without the

spouse's written consent which has been witnessed by a plan representative or a notary public. If a participant fails to designate a beneficiary, or the participant has no surviving beneficiary, the amounts payable to a married participant shall be distributed to his or her spouse and the benefits of a single participant shall be distributed to his or her estate.

7.4 PAYMENT OF ACCOUNT BALANCES UPON DISABILITY. If a participant's employment is terminated prior to retirement because of a total and permanent disability, the employer contribution account shall be 100% vested. A participant shall be deemed to be totally and permanently disabled if he or she is eligible for and is receiving Social Security disability benefits. The participant's accounts shall be valued as of the most recent valuation date prior to payment and shall be paid in a single cash payment within sixty (60) days after the disability has been established under this section, except that the participant may elect to receive any or all of the shares allocated to him or her in the Microsoft Corporation stock fund. If the value of the participant's accounts exceeds \$3,500 (or exceeded \$3,500 at the time of a prior distribution), the participant may elect to receive the balance of his or her accounts upon reaching age 65.

7.5 EARLY RETIREMENT. Upon reaching age 55, a participant may elect early retirement and shall receive the value of his or her salary deferral account and the vested portion of his or her employer contribution account, which shall be paid in the time and manner described in Section 7.1 as if the employee had terminated.

7.6 DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS. Distribution to an alternate payee under a qualified domestic relations order as defined in Code Section 414(p) may be made at any time prior to the participant's attainment of earliest retirement age if the court order specifies distribution at an earlier time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution and the alternate payee consents to the distribution.

7.6.1 Qualified Status of Order. The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator shall promptly notify the participant

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

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

7.6.3 Investment of Amounts Payable. To the extent it is not inconsistent with the provisions of the qualified domestic relations order, any partitioned funds may be invested in a segregated subaccount and may be invested in fixed income investments. A segregated subaccount shall remain a part of the Trust, but it alone shall share in any income it earns, and it alone shall bear any expense or loss it incurs. The Trustee shall make any payments or distributions to the alternate payee(s) by separate benefit checks or other separate distribution.

7.7 SALE OF TRADE OR BUSINESS. Distributions may also be made in the event of termination of the Plan, or any part thereof, as described in Code Section 401(k)(a)(A)(i) and the regulations thereunder, or a disposition of the assets of a trade or business or the stock of a

subsidiary with respect to employees who continue employment with the acquiring corporation or subsidiary as described in Code Section 401(k)(10)(A)(ii) and (iii) and the regulations thereunder. In no event may amounts attributable to 401(k) elective deferrals be distributed earlier than upon one of the following events:

- (a) Retirement, death, disability or separation from service (see Code Section 401(k)(10)(A)(i));
- (b) Termination of this Plan without establishment of a successor plan (see Code Section 401(k)(10)(A)(i));
- (c) The employee's attainment of age 59-1/2;
- (d) The sale or other disposition by a corporation to an unrelated corporation, which does not maintain this Plan, of substantially all of the assets used in a trade or business, but only with respect to employees who continue employment with the acquiring corporation (see Code Section 401(k)(10)(A)(ii));
- (e) The sale or other disposition by a corporation of its interest in a subsidiary to any unrelated entity which does not maintain this Plan, but only with respect to employees who continue employment with the subsidiary (see Code Section 401(k)(10)(A)(iii)).

7.8 NOTICE OF RIGHT TO DEFER PAYMENT. A participant whose total account balances exceed (or have exceeded at the time of a prior distribution) \$3,500 shall be given an explanation of the optional forms of benefit available, and of his or her right to defer receipt of distribution. If a participant fails to consent to an immediate distribution, it shall be deemed an election to defer the commencement of payment of any benefit. However, any election to defer the receipt of benefits shall not apply with respect to distributions which are required under Code Section 401(a)(9). Notice of the rights specified under this Section 7.8 shall be provided no less than 30 days and no more than 90 days before the "Annuity Starting Date." The "Annuity Starting Date" is the first day on which all events have occurred which entitle the participant to receive a distribution (e.g., termination of employment, consent to distribution). Distribution may

commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given if:

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

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

ARTICLE VIII

HARDSHIP WITHDRAWALS

If a participant has a financial hardship, the participant may withdraw so much of his or her salary deferral contributions as is necessary to meet the hardship. The salary deferral contributions will be valued as of the valuation date on or immediately before the withdrawal and shall be valued at 85% of their value as of the valuation date. Notwithstanding the foregoing, a participant who has an outstanding loan from the Plan (or must take such a loan prior to the hardship distribution pursuant to this Article VIII) may not take a hardship distribution in an amount which exceeds 40% of his or her vested account balance.

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

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

A participant who receives a hardship distribution

- (a) shall not receive a distribution in excess of the participant's immediate and heavy financial need;
- (b) shall, prior to the distribution, have received all other distributions and loans available under all plans maintained by the employer;

(c) shall not make elective contributions or have nonelective participant contributions made to this Plan or any other retirement plan, stock purchase plan, stock option or similar plan of the employer, until 12 months after receipt of the hardship distribution; and

(d) shall not make contributions to any plan of the employer, including this Plan, for his or her tax year immediately following the tax year in which the hardship distribution was received, in excess of (i) the annual limit applicable under Code Section 402(g) (\$9,240 for 1994), as increased by a cost of living factor, minus (ii) the amount of participant contributions in the tax year of the hardship distribution.

ARTICLE IX

LIMITATIONS ON EMPLOYEE AND EMPLOYER CONTRIBUTIONS

9.1 LIMITATIONS ON TOTAL CONTRIBUTIONS TO ACCOUNTS.

Notwithstanding anything in this Plan to the contrary, the total of employee and employer contributions and forfeitures allocated to a participant's accounts under this and any other employer sponsored defined contribution plan for any year shall not exceed the lesser of (i) 25% of the participant's compensation, reduced by employee compensation deferrals under this Plan for such year, or (ii) \$30,000, or if greater, one-fourth of the defined benefit dollar limitation set forth in Code Section 415(b)(1) as in effect for the plan year. The year used to determine the limits on annual additions shall be the plan year. If such additions exceed the limitation, the excess employer contributions for the year on behalf of the participant shall be used to reduce future employer contributions.

9.2 AVERAGE ACTUAL DEFERRAL PERCENTAGE TESTS. With respect to participant contributions in a plan year, the actual deferral percentage shall satisfy one of the tests described in (a) or (b) below. (Definitions of words used in the tests are given in Section 9.9.)

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

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

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

9.3 ELECTIVE DEFERRALS OR QUALIFIED EMPLOYER DEFERRAL CONTRIBUTIONS UNDER TWO OR MORE PLANS OR ARRANGEMENTS. The actual deferral percentage for any eligible participant who is a highly compensated employee for the plan year and who is eligible to have elective deferrals or qualified employer deferral contributions allocated to his account under two or more plans or arrangements described in Code Section 401(k) that are maintained by the employer or an affiliated employer shall be determined as if all such elective deferrals and qualified employer deferral contributions were made under a single arrangement.

9.4 ELECTIVE DEFERRALS, QUALIFIED EMPLOYER DEFERRAL CONTRIBUTIONS, AND COMPENSATION OF FAMILY MEMBERS. For purposes of determining the actual deferral percentage of a participant who is a highly compensated employee subject to the family aggregation rules of Code Section 414(q)(6), the elective deferrals, qualified employer deferral contributions and compensation of such participant shall include the elective deferrals, qualified employer deferral contributions and compensation of family members, and such family members shall be disregarded in determining the actual deferral percentage for participants who are non-highly compensated employees.

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

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

9.6 DISTRIBUTION OF EXCESS CONTRIBUTIONS. Excess contributions and income allocable thereto shall be distributed no later than the last day of each plan year to participants on whose behalf such excess contributions were made for the preceding plan year. "Excess contributions" shall mean the difference between the participant contributions made by highly compensated employees and the maximum amount of allowable participant contributions for those employees. The income allocable to excess contributions shall be determined by multiplying income allocable to the participant's elective deferrals and qualified employer deferral contributions for the plan year by a fraction, the numerator of which is the excess contribution on behalf of the participant for the preceding plan year and the denominator of which is the sum of the participant's account balances attributable to elective deferrals and qualified employer deferral contributions on the last day of the preceding plan year. The excess contributions which would otherwise be distributed to the participant shall be adjusted for income; shall be reduced, in accordance with regulations, by the amount of excess deferrals distributed to the participant; shall, if there is a loss allocable to the excess contributions, in no event be less than the lesser of the participant's account under the Plan or the participant's elective deferrals and qualified employer deferral contributions for the plan year. Amounts distributed under this section shall be treated as distributions from the participant's elective deferral account and shall be treated as distributed from the participant's qualified employer deferral contribution account only to the extent such excess contributions exceed the balance in the participant's elective deferral account.

9.7 AVERAGE CONTRIBUTIONS PERCENTAGE TESTS. With respect to participant contributions and employer matching contributions, the average contribution percentage shall satisfy one of the tests described in, (a) or (b) below (definitions of words used in the tests are given in Section 9.9).

(a) The average contribution percentage for eligible participants who are highly compensated employees for the plan year shall not exceed the average contribution

percentage for eligible participants who are non-highly compensated employees for the plan year multiplied by 1.25;

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

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

in proportion to the participant's employee contributions and matching contributions for the plan year.

9.9 DEFINITIONS APPLICABLE TO DISCRIMINATION TESTS. For purposes of this Article, the following definitions shall be used:

Actual deferral percentage shall mean the ratio (expressed as a percentage) of elective deferrals and qualified employer deferral contributions on behalf of the eligible participant for the plan year to the eligible participant's compensation for the plan year.

Average actual deferral percentage shall mean the average (expressed as a percentage) of the actual deferral percentages of the eligible participants in a group.

Compensation shall mean compensation paid by the employer to the participant during the taxable year ending with or within the plan year which is required to be reported as wages on the participant's Form W-2 and shall also include compensation which is not currently includible in the participant's gross income by reason of the application of Code Section 125, or Section 402(e)(3).

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

Eligible participant shall mean any employee of the employer who is otherwise authorized under the terms of the Plan to have elective deferrals or qualified employer deferral contributions allocated to his or her account for the plan year.

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

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

Inactive Participant shall mean any employee or former employee who has ceased to be a participant and on whose behalf an account is maintained under the Plan.

Matching contribution shall mean any contribution to the Plan made by the employer for the plan year and allocated to a participant's account by reason of the participant's employee contributions or elective deferrals.

Non-highly compensated employee shall mean an employee of the employer who is neither a highly compensated employee nor a family member.

Participant shall mean any employee of the employer who has met the eligibility and participation requirements of the Plan.

Qualified employer deferral contributions shall mean qualified nonelective contributions taken into account under the terms of the Plan in determining the actual deferral percentage.

Qualified nonelective contributions shall mean contributions (other than matching contributions) made by the employer and allocated to participants' accounts that the participant may not elect to receive in cash until distributed from the Plan; that are 100 percent vested and nonforfeitable when made; and that are not distributable under the terms of the Plan to participants or their beneficiaries except in events upon which elective deferrals may be distributed as described in Section 7.7(a) through (e) of this Plan.

ARTICLE X

ROLLOVER CONTRIBUTIONS

10.1 PERMITTED ROLLOVERS. Subject to terms and conditions established by the Plan Administrator, an employee, whether or not a participant, may transfer rollover or, effective January 1, 1993, direct rollover amounts to the trust from other eligible retirement plans as permitted under, and pursuant to the provisions of, Code Sections 402(c) and 401(a)(31), respectively. The Plan Administrator shall require written certification that the contribution qualifies under Code Sections 402(c) or 401(a)(31), respectively.

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

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

10.4 DIRECT ROLLOVER DISTRIBUTIONS. Notwithstanding any provision of the Plan to the contrary and subject to the following limitations, on or after January 1, 1993, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan. Direct rollovers may not be divided among several plans. A participant may elect to receive a distribution partly as a direct rollover and partly in a direct payment to the participant only if the direct rollover amount equals or exceeds \$500.

The following definitions shall apply to this section 10.4:

(a) Eligible Rollover Distribution. An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include:

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

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

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

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

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

ARTICLE XI
ADMINISTRATION

11.1 NAMED FIDUCIARY. The employer and the Plan Administrator are named fiduciaries for purposes of ERISA.

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

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

b. to authorize and direct the trustee with respect to all nondiscretionary or otherwise directed disbursements from the trust;

c. to compute and certify to the employer and to the trustee from time to time the sums of money necessary or desirable to be contributed to the Plan;

d. to consult with the employer and the trustee regarding the short and long-term liquidity needs of the Plan in order that the trustee can exercise any investment discretion in a manner designed to accomplish specific objectives; and

e. to prepare and implement a procedure to notify eligible employees that they may elect to have a portion of their compensation deferred or paid to them in cash.

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

11.4 APPOINTMENT OF INVESTMENT MANAGER. The employer shall have the authority described in ERISA Section 402(c)(3) to appoint one or more investment managers and contract with each for management of any part of the trust fund for a reasonable fee. Selection and retention of an investment manager shall be in the trustee's discretion. Each investment manager shall have the power to manage, acquire, and dispose of the part of the trust fund designated by the employer. The investment manager shall have no responsibility for plan operation or administration.

11.5 INVESTMENT MANAGER AND TRUSTEE. If an investment manager is appointed:

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

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

(c) Each investment manager to whom any fiduciary responsibility with respect to the Plan or the trust funds allocated is delegated, shall discharge such responsibility in

accordance with the standards set forth in ERISA 404(a) and shall acknowledge such responsibility in writing.

ARTICLE XII

CLAIMS PROCEDURE

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

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

ARTICLE XIII

NONALIENATION PROVISION

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

ARTICLE XIV

TERMINATION

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

14.2 NO REVERSION TO EMPLOYER -- ACCRUED RIGHTS NONFORFEITABLE. No termination shall have the effect of vesting in the employer any part of the principal or income of the plan funds. In the case of a termination, partial termination, or complete discontinuance of contributions, the rights of all affected employees accrued to the date of such termination or partial termination, to the extent funded as of such date, shall be nonforfeitable.

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

ARTICLE XV

MERGER OR CONSOLIDATION

In the case of any merger or consolidation with, or transfer of, assets or liabilities to any other retirement Plan, the termination benefits of participants, former participants and beneficiaries immediately subsequent to the merger, consolidation or transfer shall be equal to or greater than the termination benefits immediately prior to such merger, consolidation, or transfer.

ARTICLE XVI

AMENDMENTS

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

ARTICLE XVII

RIGHTS RESERVED

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

ARTICLE XVIII

TOP-HEAVY PROVISIONS

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

ARTICLE XIX

LOANS

Beginning January 1, 1993, a participant may borrow from his or her account in accordance with a non-discriminatory written loan policy, which is incorporated herein by reference.

APPENDIX I

DEFINITION OF COMPENSATION

Section 1.3

I.1.3.A. Compensation:

(a) For all plan years commencing on or after April 1, 1989, and prior to January 1, 1994, compensation means an employee's salary or wages paid during the plan year. Compensation includes bonuses, commissions, overtime and salary reduction contributions made by an employee to a benefit plan, but shall not include reimbursement of moving expenses, car allowances, club dues, income attributable to life insurance, and similar items. Notwithstanding anything in this Plan to the contrary, the compensation of each employee taken into account for any such plan year shall not exceed \$200,000, except that such \$200,000 shall be increased as permitted by Internal Revenue Service publication to reflect cost-of-living adjustment.

(b) For all plan years commencing on or after January 1, 1994, an employee's wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the employer maintaining the plan to the extent that the amounts are includible in gross income (including, but not limited to, bonuses, commissions, and overtime pay). Compensation includes the employee's elective salary reduction contributions not includible in gross income under Code Section 125 (cafeteria plans) or Section 402(e)(3) (401(k) plans); and compensation includes foreign earned income (as defined in Code Section 911(b)), whether or not excludable from gross income under Code Section 911. Compensation shall not include:

(i) (even if includible in gross income) reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, and welfare benefits;

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

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

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

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

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

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

I.1.3.C. Limitations on Compensation

(a) In addition to the applicable limitations set forth in the Plan, and notwithstanding any other provisions of the Plan to the contrary, for plan years beginning on or after January 1, 1994, the annual compensation of each employee taken into account under the Plan shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is \$150,000, as adjusted by the Commissioner for increases in the cost of living in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (the "determination period") beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit will be

multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

For plan years beginning on or after January 1, 1994, any reference in this Plan to the limitation under Code Section 401(a)(17) shall mean the OBRA '93 annual compensation limit set forth in this provision.

If compensation for any prior determination period is taken into account in determining an employee's benefit accruing in the current plan year, the compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first date of the first plan year beginning on or after January 1, 1994, the OBRA '93 annual compensation limit is \$150,000.

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

APPENDIX II

Sections 1.6, 2.1 and 5.2

EMPLOYERS MAINTAINING THE PLAN

Employer	Effective Date
Microsoft Corporation	January 1, 1987
Technology Resources Management Corporation	November 23, 1992

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

Company	Effective Date Credit is Granted
Microsoft Corporation	January 1, 1987
Technology Resources Management Corporation	November 23, 1992
Fox Software, Inc.	July 1, 1992
SOFTIMAGE, Inc.	June 27, 1994
Bauer Group, Inc.	July 1, 1989
Forethought, Inc.	August 1, 1987

APPENDIX III

CODE SECTION 401(k) LIMITATIONS OF COMPENSATION DEFERRALS AND
CODE SECTION 401(m) LIMITATIONS ON COMPENSATION DEFERRALS

III.9.5.A. Definition of Highly Compensated Employee

"Highly compensated employee" shall mean:

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

(b) Any employee who performs services for the employer during the determination year and who, with respect to the determination year, is either described in (a)(1) above or is both one of the 100 employees who received the most compensation from the employer during the determination year and is described in (a)(2), (a)(3) or (a)(4); or

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

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

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

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

(f) The "determination year" shall be the Plan year for which compliance is being tested, and the "look-back year" shall be the 12-month period immediately preceding the determination year.

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

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

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

(b) For each plan year, an actual deferral percentage will be determined for each participant equal to the ratio of the total amount of the participant's salary deferrals under section 3.1 for the plan year divided by the participant's compensation in the plan year. In the case of family members treated as a single highly compensated employee under the definition of "highly compensated employee", in accordance with the family aggregation rules of Code Section 414(q)(6), the actual deferral percentage shall be the greater of the (1) the actual deferral

percentage determined by combining the compensation deferrals and compensation of all eligible family members who are highly compensated employees without regard to family aggregation, and (2) the actual deferral percentage determined by combining the salary deferrals and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the deferrals and compensation of such family members shall be disregarded for purposes of this section. Except as otherwise provided in this paragraph (b), with respect to participants who have made no salary deferrals under this plan, such actual deferral percentage will be zero.

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

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

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

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

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

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

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

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

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

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

(a) For each plan year, a contribution percentage will be determined for each participant equal to the ratio of the total amount of the participant's employer matching contributions under section 4.1 for the plan year divided by the participant's compensation for the plan year. Any employer matching contributions or employer contributions treated as salary deferrals under section III.9.5.B.(b) shall not be used to satisfy the requirements of this Section III.9.5.B.(a), except as otherwise permitted by the Code or Treasury Regulations. In the case of family members treated as a single highly compensated employee under the definition of "highly compensated employee" in accordance with the family aggregation rules of Code Section 414(q)(6), the contribution percentage shall be the greater of (1) the contribution percentage determined by combining the employer matching contributions and compensation of all eligible family members who are highly compensated employees without regard to family aggregation, and (2) the actual contribution percentage determined by combining the employer matching contributions and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the employer matching contributions, compensation and all amounts treated as employer matching contributions of such family members shall be disregarded for purposes of this section III.9.5.C. Except as otherwise provided in this Section III.9.5.C.(b), with respect to participants and for whom there were no employer matching contributions under this plan, such contribution percentage will be zero.

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

(1) 1.25 times the low average; or

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

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

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

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

APPENDIX IV

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

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

(i) An officer of the employer having an annual compensation from the employer greater than 150 percent of the amount in effect under Code Section 415(b)(1)(A) for any such plan year. Not more than fifty employees (or, if fewer, the greater of three employees or ten percent of the employees), including those employees included under subparagraph (ii), (iii) and (iv) below, shall be considered as officers for purposes of this subparagraph.

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

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

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

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

(b) Top-Heavy Plan shall mean that this Plan is considered top-heavy for any plan year if any of the following conditions exists:

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

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

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

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

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

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

aggregated defined benefit plan or plans for all key employees as of the determination date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all participants, determined in accordance with (i) above, and the present value of accrued benefits under the defined benefit plan or plans for all participants as of the determination date(s), all determined in accordance with Code Section 416 and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the top-heavy ratio are adjusted for any distribution of an accrued benefit made in the five-year period ending on the determination date.

(iii) For purposes of (i) and (ii) above the value of account balances and the present value of accrued benefits will be determined as of the most recent valuation date that falls within or ends with the 12-month period ending on the determination date, except as provided in Code Section 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a participant (1) who is not a key employee but who was a key employee in a prior year, or (2) who has not been credited with at least one hour of service with any employer maintaining the Plan at any time during the 5-year period ending on the determination date will be disregarded. The calculation of the top-heavy ratio, and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code Section 416 and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the top-heavy ratio. When aggregating plans the value of account balances and accrued benefits will be calculated with reference to the determination dates that fall within the same calendar year.

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

(e) Required Aggregation Group shall mean each qualified plan of the employer in which at least one key employee participates or participated at any time during the

determination period (regardless of whether the plan has terminated), and any other qualified plan of the employer which enables such a plan to, meet the requirements of Code Section 401(a)(4) or Section 410.

(f) Determination Date shall mean for any plan year subsequent to the first plan year, the last day of the preceding plan year; for the first plan year of the Plan, the last day of that year.

(g) Valuation Date shall mean the date as of which account balances or accrued benefits are valued for purposes of calculating the top-heavy ratio.

(h) Present value shall be based only on the interest and mortality rates specified in the adoption agreement.

IV.18.B. MINIMUM ALLOCATION.

The employer contributions and forfeitures allocated on behalf of any participant employed on the last day of the plan year, who is not a key employee, shall not be less than the lesser of three percent of such participant's compensation or in the case where the employer has no defined benefit plan which designates this plan to satisfy Code Section 401, the largest percentage of employer contributions and forfeitures, as a percentage of the first \$150,000 (or the adjusted limitation under Code Section 401(a)(17)) of the key employee's compensation, allocated on behalf of any key employee for that year. If the highest rate allocated to a key employee for a year in which the Plan is top heavy is less than 3%, amounts contributed as a result of a salary deferral agreement shall be included in determining contributions made on behalf of key employees. The minimum allocation is determined without regard to any Social Security contribution. This minimum allocation shall be made even though, under other plan provisions, the participant would not otherwise be entitled to receive an allocation, or would have received a lesser allocation for the year because of (1) the participant's failure to complete 1,000 hours of service (or any equivalent provided in the Plan), or (2) the participant's failure to make mandatory employee contributions to the Plan, or (3) compensation less than a stated amount. An allocation under this section shall not be made if the participant is covered under any other plan or plans of

the employer and the minimum allocation or benefit requirement applicable to top-heavy plans will be met in the other plan or plans. The definition of compensation in section 1.3 of the Plan shall be the definition for determining minimum allocations under this section. This definition shall be used for all top-heavy purposes, including determining whether an employee is a key employee.

The employer has caused this restated Plan to be duly executed on this ____ day of June, 1994.

MICROSOFT CORPORATION

By _____
Title: _____

EXHIBIT 11.

COMPUTATION OF EARNINGS PER SHARE
(In millions, except earnings per share)

	Year Ended June 30		
	1992	1993	1994
	-----	-----	-----
Weighted average number of common shares outstanding	533	556	571
Common equivalent shares from outstanding stock options.	55	50	39
	-----	-----	-----
Average common and common equivalent shares outstanding (1) (2).	588	606	610
	=====	=====	=====
Net income	\$ 708	\$ 953	\$1,146
	=====	=====	=====
Earnings per share (1) (2)	\$1.20	\$1.57	\$ 1.88
	=====	=====	=====

(1) Fully diluted earnings per share have not been presented because the effects are not material.

(2) Share and per share amounts for the years ended June 30, 1992 and 1993 have been restated to reflect a two-for-one stock split in May 1994.

FINANCIAL HIGHLIGHTS

(In millions, except earnings per share)

Year Ended June 30

	1990	1991	1992	1993	1994
Net revenues	\$1,183	\$1,843	\$2,759	\$3,753	\$4,649
Net income	279	463	708	953	1,146
Earnings per share	0.52	0.82	1.20	1.57	1.88
Return on net revenues	23.6%	25.1%	25.7%	25.4%	24.7%
Cash and short-term investments	\$ 449	\$ 686	\$1,345	\$2,290	\$3,614
Total assets	1,105	1,644	2,640	3,805	5,363
Stockholders' equity	919	1,351	2,193	3,242	4,450

FINANCIAL RESULTS

Due in large measure to the ongoing success of the Microsoft(R) Windows(TM) operating system and Microsoft Office, Microsoft posted its 19th consecutive year of revenue and earnings growth.

Revenues were \$4.65 billion in 1994, an increase of 24% over the \$3.75 billion recorded the preceding year. Net income totaled \$1.15 billion, up 20% from the \$953 million of 1993. Earnings per share reached \$1.88, compared with \$1.57 last year (restated to reflect the Company's two-for-one stock split in May 1994).

In the third quarter of 1994, Microsoft recorded a \$120 million pretax charge after a jury verdict in the Stac Electronics patent litigation. In the fourth quarter, Microsoft reached an agreement with Stac to settle the litigation and reversed \$30 million of the charge. The net \$90 million pretax charge reduced earnings per share for 1994 by \$0.10.

MICROSOFT CORPORATION 1994 FINANCIAL RESULTS

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INCOME STATEMENTS
(In millions, except earnings per share)

	Year Ended June 30		
	1992	1993	1994
Net revenues	\$2,759	\$3,753	\$4,649
Cost of revenues	467	633	763
Gross profit	2,292	3,120	3,886
Operating expenses:			
Research and development	352	470	610
Sales and marketing	854	1,205	1,384
General and administrative	90	119	166
Total operating expenses	1,296	1,794	2,160
Operating income	996	1,326	1,726
Interest income -- net	56	82	102
Litigation charge	--	--	(90)
Other expenses	(11)	(7)	(16)
Income before income taxes	1,041	1,401	1,722
Provision for income taxes	333	448	576
Net income	\$ 708	\$ 953	\$1,146
Earnings per share	\$ 1.20	\$ 1.57	\$ 1.88
Weighted average shares outstanding	588	606	610

See accompanying notes.

NET REVENUES		NET INCOME		EARNINGS PER SHARE	
YEAR	AMOUNT	YEAR	AMOUNT	YEAR	AMOUNT
1992	\$2,759	1992	\$ 708	1992	\$1.20
1993	\$3,753	1993	\$ 953	1993	\$1.57
1994	\$4,649	1994	\$1,146	1994	\$1.88

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In millions)

RESULTS OF OPERATIONS

OVERVIEW

Microsoft develops, manufactures, markets, licenses, and supports a wide range of software products, including operating systems for personal computers (PCs), office machines, and personal information devices; applications programs; and languages; as well as personal computer books, hardware, and multimedia products.

NET REVENUES

	1992 -----	Change -----	1993 -----	Change -----	1994 -----
Net revenues	\$2,759	36%	\$3,753	24%	\$4,649

Product groups. Operating systems product group revenues were \$1,104 million, \$1,267 million, and \$1,519 million in 1992, 1993, and 1994. The MS-DOS(R) operating system is preinstalled on PCs by most original equipment manufacturers (OEMs), and revenues from such licenses increased steadily in both 1993 and 1994. Revenues from retail upgrade versions of MS-DOS decreased in 1994 after a strong increase in 1993. The Microsoft Windows operating system was an increasingly strong contributor to systems revenues as the number of new PCs preinstalled with Windows increased rapidly during the three-year period.

Applications product group revenues were \$1,401 million, \$2,253 million, and \$2,927 million in 1992, 1993, and 1994. Increases in applications revenues were led by strong sales of Microsoft Office. The Microsoft Office Standard product includes Microsoft Excel, Microsoft Word, the Microsoft PowerPoint(R) presentation graphics program, and a Microsoft Mail license, while the Microsoft Office Professional product also includes Microsoft Access(R) database. Sales of stand-alone versions of the Microsoft Excel spreadsheet and the Microsoft Word word processor increased in 1993 but decreased in 1994 as the sales mix continued to shift to integrated products.

Microsoft Home, a broad range of products in the Company's consumer applications group, also showed continued growth. The Microsoft Home brand includes CD-ROM multimedia library titles and products for children's creativity, personal productivity, and entertainment.

Windows-based software programs represented approximately 85% of applications revenues in 1994, up from 65% in 1992 and 75% in 1993.

Hardware product group revenues were \$254 million, \$233 million, and \$203 million in 1992, 1993, and 1994. The hardware product group's principal products are the Microsoft Mouse and BallPoint(R) Mouse pointing devices.

SYSTEMS REVENUES -----		APPLICATIONS REVENUES -----	
YEAR ----	AMOUNT -----	YEAR ----	AMOUNT -----
1992	\$1,104	1992	\$1,401
1993	\$1,267	1993	\$2,253
1994	\$1,519	1994	\$2,927

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
(In millions)

Sales channels. The Company has four major channels of distribution including: finished goods sales in the U.S. and Canada, Europe, and Other International; and OEM. Sales in the finished goods channels are primarily to distributors and resellers. OEM channel revenues are license fees from original equipment manufacturers.

U.S. and Canada channel revenues were \$1,062 million, \$1,371 million, and \$1,575 million in 1992, 1993, and 1994.

Revenues in Europe were \$997 million, \$1,259 million, and \$1,363 million in 1992, 1993, and 1994. Other International channel revenues increased 36% in 1994 to \$532 million. Revenues were \$223 million in 1992 and \$392 million in 1993.

The Company's operating results are affected by foreign exchange rates. Approximately 46%, 44%, and 40% of the Company's revenues were collected in foreign currencies during 1992, 1993, and 1994. Since much of the Company's international manufacturing costs and operating expenses are also incurred in local currencies, the relative impact of exchange rates on net income is less than on revenues.

OEM revenues grew 61% from the prior year to \$1,179 million. OEM revenues were \$477 million in 1992 and \$731 million in 1993. The primary source of OEM revenues is licenses of operating systems, particularly MS-DOS and Microsoft Windows. During 1994, approximately 80% of Windows units were sold through the OEM channel, up from approximately 50% in 1992 and 75% in 1993.

U.S. AND CANADA REVENUES		EUROPE REVENUES	
YEAR	AMOUNT	YEAR	AMOUNT
1992	\$1,062	1992	\$ 997
1993	\$1,371	1993	\$1,259
1994	\$1,575	1994	\$1,363

OTHER INTERNATIONAL REVENUES		OEM REVENUES	
YEAR	AMOUNT	YEAR	AMOUNT
1992	\$223	1992	\$ 477
1993	\$392	1993	\$ 731
1994	\$532	1994	\$1,179

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
(In millions, except earnings per share)

COST OF REVENUES

	1992	Change	1993	Change	1994
	----	-----	----	-----	----
Cost of revenues	\$467	36%	\$633	21%	\$763
Percentage of net revenues	16.9%		16.9%		16.4%
	----		----		----

Cost of revenues as a percentage of net revenues was 16.4% in 1994, down from 16.9% in 1992 and 1993. The percentage decreased due to lower disk prices from vendors and a greater percentage of sales of licenses to OEMs and corporations, offset by increased sales of lower-margin Microsoft Office and upgrade products.

OPERATING EXPENSES

	1992	Change	1993	Change	1994
	----	-----	-----	-----	-----
Research and development	\$352	34%	\$ 470	30%	\$ 610
Percentage of net revenues	12.8%		12.5%		13.1%
	----		-----		-----
Sales and marketing	\$854	41%	\$1,205	15%	\$1,384
Percentage of net revenues	31.0%		32.1%		29.8%
	----		-----		-----
General and administrative	\$ 90	32%	\$ 119	39%	\$ 166
Percentage of net revenues	3.3%		3.2%		3.6%
	----		-----		-----

Increases in research and development expenses resulted primarily from planned additions to the Company's software development and advanced technology staffs, as well as higher levels of third-party development costs.

In 1994, sales and marketing expenses increased at a slower rate than revenues due to a concerted performance orientation at all sales sites. The increases in the absolute dollars of sales and marketing expenses in 1993 and 1994 were due to increased marketing programs and advertising for the launch of new products, planned hiring of marketing personnel, and continued development of Product Support Services.

Increases in general and administrative expenses are primarily attributable to higher legal costs and growth in the systems and people necessary to support overall increases in the scope of the Company's operations.

NONOPERATING INCOME

	1992	Change	1993	Change	1994
	----	-----	----	-----	----
Nonoperating income	\$45	67%	\$75	15%	\$86
Litigation charge	--		--		\$90
	---		---		---

The primary component of nonoperating income is interest income, which was \$58 million, \$83 million, and \$104 million in 1992, 1993, and 1994. Increased interest income is the result of a larger investment portfolio generated by cash from operations, offset in both 1993 and 1994 by declining interest rates.

In the third quarter of 1994, the Company recorded a \$120 million charge to reflect the estimated impact of a jury verdict in the Stac Electronics patent litigation and related expenses. In June 1994, the Company reached an agreement with Stac to settle the litigation and adjusted its estimate accordingly, resulting in a credit of \$30 million in the fourth quarter and a net pretax charge of \$90 million for the year.

PROVISION FOR INCOME TAXES

	1992	Change	1993	Change	1994
	----	-----	----	-----	----
Provision for income taxes	\$333	35%	\$448	29%	\$576
Effective tax rate	32.0%		32.0%		33.5%
	----		----		----

The effective tax rate increased in 1994 primarily because of an increase in the U.S. statutory income tax rate. Notes To Financial Statements describe the differences between the U.S. statutory and effective income tax rates.

NET INCOME AND EARNINGS PER SHARE

	1992	Change	1993	Change	1994
	-----	-----	-----	-----	-----
Net income	\$ 708	35%	\$ 953	20%	\$1,146
Percentage of net revenues	25.7%		25.4%		24.7%
Earnings per share	\$1.20	31%	\$1.57	20%	\$ 1.88
	-----	--	-----	--	-----

Net income as a percentage of net revenues decreased in 1994, primarily due to the Stac Electronics patent litigation charge and increased research and development expenses, offset by the lower relative level of sales and marketing expenses. The slight percentage decrease in 1993 from 1992 was attributable to higher relative sales and marketing expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

OUTLOOK: ISSUES AND RISKS

The Company's 1994 Annual Report includes discussions of its long-term growth outlook. The following issues and risks, among others, should also be considered in evaluating its outlook.

Rapid technological change. The personal computer software industry is characterized by rapid technological change and uncertainty as to the widespread acceptance of new products.

Long-term investment cycle. Developing, manufacturing, and licensing software is expensive and the investment in product development often involves a long pay-back cycle. The Company began investing in the principal products that are significant to its current revenues in the early 1980s. The Company's plans for 1995 include significant investments in software research and development and related product opportunities from which significant revenues are not anticipated for a number of years.

Product ship schedules. Delays in the release of new products can cause operational inefficiencies that impact manufacturing capabilities, distribution logistics, and telephone support staffing.

Microsoft Office. Revenues from Microsoft Office may increase as a percentage of total revenues in 1995. The price of Microsoft Office is less than the sum of the prices for the individual application programs included in this product when such programs are sold separately.

Prices. Future prices the Company is able to obtain for its products may decrease from historical levels depending upon market or other cost factors.

Saturation. Product upgrades, enabling users to upgrade from earlier versions of the Company's products or from competitors' products, have lower prices than new products. As the desktop PC software market becomes saturated, the sales mix shifts from standard products to upgrade products. This trend is expected to continue in 1995.

Introductory pricing. The Company has offered certain new products at low introductory prices. This practice may continue with other new product offerings.

Channel mix. Average revenue per license is lower from OEM licenses than from retail versions, reflecting the relatively lower direct costs of operations in the OEM channel. An increasingly higher percentage of revenues was achieved through the OEM channel during 1993 and 1994.

Volume discounts. In 1994, unit sales increased under Microsoft Select, a large account program designed to permit large organizations to license Microsoft products. Average revenue per copy from Select license programs is lower than average revenue per copy from retail versions shipped through the finished goods channels.

Foreign exchange. A large percentage of the Company's sales are transacted in local currencies. As a result, the Company's revenues are subject to foreign exchange rate fluctuations.

Cost of revenues. Although cost of revenues as a percentage of net revenues was relatively consistent in 1993 and 1994, it varies with channel mix and product mix within channels. Changes in channel and product mix, as well as in the cost of product components, may affect cost of revenues as a percentage of net revenues in 1995.

Sales and marketing and support investments. The Company's plans for 1995 include continued investments in its sales and marketing and support groups. Competitors may be able to enter the market without making investments of such scale.

Accounting standards. Accounting standards promulgated by the Financial Accounting Standards Board change periodically. Changes in such standards, including currently proposed changes in the accounting for employee stock option plans, may have a negative impact on the Company's future reported earnings.

Unlicensed copying. Unlicensed copying of software represents a loss of revenues to the Company. The Company is actively educating consumers and lawmakers on this issue. However, there can be no assurance that continued efforts will affect revenues positively.

Growth rates. Management believes the Company's recent revenue growth rates are not sustainable. Operating expenses as a percentage of revenues may increase in 1995 because of the above factors, among others.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
(In millions)

Litigation. Litigation regarding intellectual property rights, patents, and copyrights is increasing in the PC software industry. In addition, there are other general corporate legal risks. See Notes To Financial Statements regarding contingencies related to government regulation and legal proceedings.

FINANCIAL CONDITION

The Company's cash and short-term investments totaled \$3,614 million at June 30, 1994 and represented 67% of total assets. The portfolio is diversified among security types, industries, and individual issuers. The Company's investments are investment grade and liquid.

Microsoft has no material long-term debt. Stockholders' equity at June 30, 1994 was over \$4.4 billion.

Cash generated from operations has been sufficient to fund the Company's investment in research and development activities and facilities expansion. As the Company grows, investments will continue in research and development in existing and advanced areas of technology. The Company's cash will be used to acquire technology or to fund strategic ventures. Additions to property, plant, and equipment are expected to continue, including facilities and computer systems for research and development, sales and marketing, product support, and administrative staff.

The exercise of stock options by employees provides additional cash. These proceeds have funded the Company's open market stock repurchase program through which Microsoft provides shares for stock option and stock purchase plans. This practice is expected to continue in 1995.

The Company has available \$70 million of standby multicurrency lines of credit. These lines support foreign currency hedging and international cash management.

Management believes existing cash and short-term investments together with funds generated from operations will be sufficient to meet the Company's operating requirements in 1995.

RESEARCH AND DEVELOPMENT SPENDING		SALES AND MARKETING SPENDING	
YEAR	AMOUNT	YEAR	AMOUNT
1992	\$352	1992	\$ 854
1993	\$470	1993	\$1,205
1994	\$610	1994	\$1,384

CASH FLOWS STATEMENTS
(In millions)

	Year Ended June 30		
	1992	1993	1994
CASH FLOWS FROM OPERATIONS			
Net income	\$ 708	\$ 953	\$ 1,146
Depreciation and amortization	112	151	237
Current liabilities	167	177	360
Accounts receivable	(33)	(121)	(146)
Inventories	(40)	(51)	23
Other current assets	(18)	(35)	(27)
	-----	-----	-----
Net cash from operations	896	1,074	1,593
	-----	-----	-----
CASH FLOWS FROM FINANCING			
Common stock issued	135	229	280
Common stock repurchased	(135)	(250)	(348)
Stock option income tax benefits	130	207	151
	-----	-----	-----
Net cash from financing	130	186	83
	-----	-----	-----
CASH FLOWS USED FOR INVESTMENTS			
Additions to property, plant, and equipment	(317)	(236)	(278)
Other assets	(41)	(17)	(64)
Short-term investments	(284)	(723)	(860)
	-----	-----	-----
Net cash used for investments	(642)	(976)	(1,202)
	-----	-----	-----
Net change in cash and equivalents	384	284	474
Effect of exchange rates	(10)	(62)	(10)
Cash and equivalents, beginning of year	417	791	1,013
	-----	-----	-----
Cash and equivalents, end of year	791	1,013	1,477
Short-term investments	554	1,277	2,137
	-----	-----	-----
Cash and short-term investments	\$1,345	\$2,290	\$ 3,614
	=====	=====	=====

See accompanying notes.

CASH AND SHORT-TERM INVESTMENTS

YEAR	AMOUNT
----	-----
1992	\$1,345
1993	\$2,290
1994	\$3,614

BALANCE SHEETS
(In millions)

	June 30	
	1993	1994
ASSETS		
Current assets:		
Cash and short-term investments	\$2,290	\$3,614
Accounts receivable -- net of allowances of \$76 and \$92	338	475
Inventories	127	102
Other	95	121
	-----	-----
Total current assets	2,850	4,312
Property, plant, and equipment -- net	867	930
Other assets	88	121
	-----	-----
Total assets	\$3,805	\$5,363
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 239	\$ 324
Accrued compensation	86	96
Income taxes payable	127	305
Other	111	188
	-----	-----
Total current liabilities	563	913
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital -- shares authorized 2,000; issued and outstanding 565 and 581	1,086	1,500
Retained earnings	2,156	2,950
	-----	-----
Total stockholders' equity	3,242	4,450
	-----	-----
Total liabilities and stockholders' equity	\$3,805	\$5,363
	=====	=====

See accompanying notes.

ASSETS - 1994		LIABILITIES AND STOCKHOLDERS' EQUITY - 1994	
-----		-----	
ASSETS	PERCENT	LIABILITIES & STOCKHOLDERS' EQUITY	PERCENT
-----		-----	
Cash	67%	Stockholders'	
PP&E	18%	Equity	83%
Other		Liabilities	17%
Current			
Assets	13%		
Other	2%		

STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)

	Year Ended June 30		
	1992	1993	1994
COMMON STOCK AND PAID-IN CAPITAL			
Balance, beginning of year	\$ 395	\$ 657	\$1,086
Common stock issued	135	229	280
Common stock repurchased	(3)	(7)	(17)
Stock option income tax benefits	130	207	151
Balance, end of year	657	1,086	1,500
RETAINED EARNINGS			
Balance, beginning of year	956	1,536	2,156
Common stock repurchased	(132)	(243)	(331)
Net income	708	953	1,146
Translation adjustment	4	(90)	(21)
Balance, end of year	1,536	2,156	2,950
Total stockholders' equity	\$2,193	\$3,242	\$4,450

See accompanying notes.

STOCKHOLDERS' EQUITY	
YEAR	AMOUNT
1992	\$2,193
1993	\$3,242
1994	\$4,450

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

EMPLOYEE STOCK OPTIONS

At Microsoft, every employee is eligible to become a stockholder in the Company through the Company's employee stock purchase and stock option plans. Management believes stock options have made a major contribution to the success of the Company by aligning employee interests with those of other stockholders. Stock options enjoy widespread use today, and many of the Company's competitors have similar programs.

During the last several years there has been considerable debate about the appropriate accounting for stock options. Questions in this ongoing discussion include how stock options should be measured; whether they should be recorded in traditional financial statements, subject to already complex and increasingly difficult rules; whether they should be highlighted in a separate new financial statement or table; or whether further information concerning stock options should be disclosed in footnotes to financial statements. Pending resolution of these outstanding issues, on the accompanying page we have provided a table of outstanding common shares and net options and changes in their computed values based on quoted prices for the Company's stock. It provides a clear understanding of the Company's equity, its equity holders, and the value or possible value of their vested and unvested holdings.

In this table, common shares are those outstanding. Net vested and unvested options represent the number of common shares issuable upon exercise of such stock options less the number of common shares that could be repurchased with proceeds from their exercise. Computed values are calculated based on the closing price of the Company's common stock on the Nasdaq National Market System on the dates indicated.

STAKEHOLDINGS - 1994

Employees' and Directors' Shares and Options	47%
Other Investors' Shares	53%

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
(In millions)

	June 30				
	1992	Change	1993	Change	1994
OUTSTANDING COMMON SHARES AND OPTIONS					
Directors' and officers' common shares	273	(13)	260	(21)	239
Employees' and directors' net vested and unvested stock options	78	(11)	67	(5)	62
Employees' and directors' shares and options	351	(24)	327	(26)	301
Other investors' common shares	271	34	305	37	342
Total	622	10	632	11	643
Nasdaq closing price per share	\$35		\$44		\$51-5/8
COMPUTED VALUES					
Directors' and officers' common shares	\$ 9,579	\$1,886	\$11,465	\$ 845	\$12,310
Employees' and directors' net vested and unvested stock options	2,714	245	2,959	269	3,228
Employees' and directors' shares and options	12,293	2,131	14,424	1,114	15,538
Other investors' common shares	9,486	3,930	13,416	4,259	17,675
Total	\$21,779	\$6,061	\$27,840	\$5,373	\$33,213

NOTES TO FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. The financial statements include the accounts of Microsoft and its wholly owned subsidiaries. Significant intercompany transactions and balances have been eliminated.

Foreign currencies. Current assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Fixed assets and resulting depreciation are translated at historical rates. Translation adjustments resulting from this process are charged or credited to equity. Revenues, costs, and expenses are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in other expenses.

Revenue recognition. Revenue from finished goods sales to distributors and resellers is recognized when related products are shipped. Revenue billed upon shipment of finished goods products attributable to both specified and unspecified future product enhancements is deferred and recognized when such enhancements are delivered. Revenue from software maintenance contracts is recognized ratably over the contract period.

The Company warrants products against defects and has policies permitting the return of products under certain circumstances. Provision is made for warranty costs and returns. Such costs generally have not been material.

Revenue from products licensed to original equipment manufacturers is recognized when the licensed products are shipped by the OEM. License fees received prior to product acceptance are recorded as customer deposits.

Provision is made for bad debts. Such costs generally have not been material.

Research and development. Research and development costs are expensed as incurred.

Income taxes. Income tax expense includes U.S. and international income taxes, plus an accrual for U.S. taxes on undistributed earnings of international subsidiaries. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of this difference is reported as deferred income taxes. Tax credits are accounted for as a reduction of tax expense in the year in which the credits reduce taxes payable.

Earnings per share. Earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method.

Stock split. In May 1994, outstanding shares of common stock were split two-for-one. All shares and per share amounts have been restated.

Cash and short-term investments. The Company considers all liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments are stated at the lower of cost or market. Cost approximates market value for all classifications of cash and short-term investments.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, plant, and equipment. Property, plant, and equipment is stated at cost and depreciated using the straight-line method. Estimated lives are as follows: buildings, 30 years; leasehold improvements, the lease term; computer equipment and other, principally three years.

Diversification of risk. The Company's investment portfolio is diversified and consists of short-term investment grade securities. At June 30, 1993 and 1994, approximately 40% of accounts receivable represented amounts due from ten channel purchasers. Two of these each accounted for approximately 10% of revenues in 1993 and 13% in 1994. The Company hedges certain foreign exchange exposures although no material hedge contracts were outstanding at June 30, 1994.

Statements of Financial Accounting Standards (SFAS). SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, does not materially affect the Company. SFAS No. 109, Accounting for Income Taxes, was adopted in 1994, and the effect on current year and cumulative net income was not material. Required adoption of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, in the first quarter of 1995 will not have a material impact on the financial statements. In its current form, a proposed new SFAS, Accounting for Stock-based Compensation, if adopted, is expected to have a material adverse effect on the way future net income is reported.

Reclassifications. Certain reclassifications have been made for consistent presentation.

NOTES TO FINANCIAL STATEMENTS (cont.)
(In millions)

CASH AND SHORT-TERM INVESTMENTS

	June 30	
	----- 1993	----- 1994
	-----	-----
Cash and equivalents:		
Cash	\$ 225	\$ 263
Commercial paper	326	619
Money market preferreds	159	180
Certificates of deposit	160	218
Bank loan participations	143	197
	-----	-----
Cash and equivalents	1,013	1,477
	-----	-----
Short-term investments:		
Municipal securities	788	1,245
Corporate notes and bonds	226	423
U.S. Treasury securities	199	417
Commercial paper	64	52
	-----	-----
Short-term investments	1,277	2,137
	-----	-----
Cash and short-term investments	\$2,290	\$3,614
	=====	=====

PROPERTY, PLANT, AND EQUIPMENT

	June 30	
	----- 1993	----- 1994
	-----	-----
Land	\$ 144	\$ 162
Buildings	389	440
Computer equipment	415	532
Other	233	311
	-----	-----
Property, plant, and equipment - at cost	1,181	1,445
Accumulated depreciation	(314)	(515)
	-----	-----
Property, plant, and equipment - net	\$ 867	\$ 930
	=====	=====

INCOME TAXES

The provision for income taxes was composed of:

	1992	1993	1994
	----	----	----
Current taxes:			
U.S. and state	\$225	\$352	\$470
International	112	123	94
	-----	-----	-----
Current taxes	337	475	564
Deferred taxes	(4)	(27)	12
	-----	-----	-----
Provision for income taxes	\$333	\$448	\$576
	=====	=====	=====

Differences between the U.S. statutory and effective tax rates were:

	1992	1993	1994
	----	----	----
U.S. statutory rate	34.0%	34.0%	35.0%
Tax exempt income	(0.6)	(0.6)	(0.9)
Foreign sales corporation	(1.0)	(1.0)	(1.0)
Tax credits	(1.1)	(0.9)	(2.1)
State taxes and other - net	0.7	0.5	2.5
	-----	-----	-----
Effective tax rate	32.0%	32.0%	33.5%
	=====	=====	=====

Deferred income tax balances were:

	JUNE 30 1994

Deferred income tax assets:	
Gross margin items	\$ 72
Expense items	132

Deferred income tax assets	204

Deferred income tax liabilities:	
International earnings	(147)
Other	(4)

Deferred income tax liabilities	(151)

Net deferred income tax asset	\$ 53
	=====

U.S. and international components of income before income taxes were:

	1992	1993	1994
	-----	-----	-----
U.S.	\$ 658	\$ 960	\$1,281
International	383	441	441
	-----	-----	-----
Income before income taxes	\$1,041	\$1,401	\$1,722
	=====	=====	=====

The Internal Revenue Service is examining the Company's U.S. income tax returns for 1990 and 1991. The Company believes any adjustments from the examination will not be material. Income taxes paid were \$175 million, \$187 million, and \$247 million in 1992, 1993, and 1994.

COMMON STOCK

Shares of common stock outstanding were as follows:

	1992	1993	1994
	----	----	----
Balance, beginning of year	522	544	565
Issued	26	27	25
Repurchased	(4)	(6)	(9)
	---	---	---
Balance, end of year	544	565	581
	===	===	===

The Company repurchases its common stock in the open market to provide shares for issuance to employees under stock option and stock purchase plans. The Company's Board of Directors authorized continuation of this program in 1995.

In June 1994, the Company merged with SOFTIMAGE, Inc. (SI), a leading developer of 2-D and 3-D computer animation and visualization software, in a pooling of interests. The Company exchanged 2.7 million shares, shown as outstanding at June 30, 1994,

NOTES TO FINANCIAL STATEMENTS (cont.)
(In millions, except per share data)

for all of the outstanding stock of SI. SI's assets and liabilities, which were nominal, are included with those of Microsoft as of June 30, 1994. Operating results for SI during 1992, 1993, and 1994 were not material to the combined results of the two companies. Accordingly, the financial statements for such periods have not been restated.

EMPLOYEE STOCK AND SAVINGS PLANS

Employee stock purchase plan. The Company has an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or the last day of each six-month period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period. During 1992, 1993, and 1994, employees purchased 0.9 million, 1.0 million, and 1.1 million shares at average prices of \$24.59, \$33.29, and \$34.16 per share. At June 30, 1994, 6.5 million shares were reserved for future issuance.

Savings plan. The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pretax salary, but not more than statutory limits. The Company contributes fifty cents for each dollar contributed by a participant, with a maximum contribution of 3% of a participant's earnings. The Company's matching contributions to the savings plan were \$5 million, \$7 million, and \$9 million in 1992, 1993, and 1994.

Stock option plans. The Company has stock option plans for directors, officers, and all employees, which provide for nonqualified and incentive stock options. The Board of Directors determines the option price (not to be less than fair market value for incentive options) at the date of grant. The options generally expire ten years from the date of grant and vest over four and one-half years. At June 30, 1994, options for 52.6 million shares were vested and 111.0 million shares were available for future grants under the plans.

Outstanding Options

	Number	Price per Share	
		Range	Weighted Average
Balance, June 30, 1991	115.0	\$ 0.31 - 22.39	\$ 8.27
Granted	29.7	20.59 - 39.79	23.77
Exercised	(20.7)	0.31 - 16.61	6.50
Canceled	(3.7)	1.50 - 38.84	7.39
Balance, June 30, 1992	120.3	0.31 - 39.79	12.44
Granted	24.4	30.88 - 44.25	34.30
Exercised	(26.2)	0.31 - 36.92	7.95
Canceled	(4.4)	4.97 - 44.13	14.23
Balance, June 30, 1993	114.1	0.31 - 44.25	18.06
GRANTED	26.2	35.50 - 50.13	37.47
EXERCISED	(20.9)	1.51 - 44.25	11.42
CANCELED	(5.5)	5.01 - 44.13	28.67
BALANCE, JUNE 30, 1994	113.9	0.31 - 50.13	23.29

LEASES

The Company has operating leases for most U.S. and international sales and support offices and certain equipment. Rental expense for operating leases was \$44 million, \$54 million, and \$68 million in 1992, 1993, and 1994. Future minimum rental commitments under noncancelable leases, in millions of dollars, are: 1995, \$67; 1996, \$49; 1997, \$38; 1998, \$32; 1999, \$24; and thereafter, \$22.

CONTINGENCIES

On July 15, 1994, Microsoft entered into an undertaking with the Commission of the European Communities (European Commission) resolving a complaint submitted by Novell, Inc. claiming that certain practices of Microsoft violated Articles 85 and 86 of the Treaty of Rome. The undertaking is effective immediately, requires no further approval, and closes the investigation of Novell's complaint by the European Commission's Directorate-General for Competition. In the undertaking, which involves no admission of wrongdoing on Microsoft's part, Microsoft agreed to make certain changes in its OEM licensing practices. Microsoft also agreed to employ a uniform duration in its nondisclosure

NOTES TO FINANCIAL STATEMENTS (cont.)

versions of certain operating system products, and clarified the rights and responsibilities of those signing such nondisclosure agreements. The European Commission has the right to monitor Microsoft's compliance during the 6-1/2 year term of the settlement agreement.

On July 15, 1994, Microsoft and the U.S. Department of Justice (DOJ) entered into a consent decree resolving the DOJ's nonpublic investigation of Microsoft. The consent decree contained the same provisions as the undertaking between Microsoft and the European Commission. To become final, the consent decree must be approved by the U.S. District Court for the District of Columbia. The Court's consideration of the consent decree and any comments and responses submitted concerning it will occur no sooner than 60 days after publication of the consent decree in the Federal Register.

Microsoft does not expect the undertaking with the European Commission or the consent decree with the DOJ to affect its OEM revenues.

On March 17, 1988, Apple Computer, Inc. (Apple) brought suit against Microsoft and Hewlett-Packard Company for alleged copyright infringement in the U.S. District Court, Northern District of California. The complaint included allegations that the visual displays of Microsoft Windows version 2.03 (and Windows version 3.0, which was added to the complaint later) infringed Apple's copyrights and exceeded the scope of a 1985 Settlement Agreement between Microsoft and Apple. The complaint sought to enjoin Microsoft from marketing Microsoft Windows versions 2.03 and 3.0 or any derivative work based on Windows 2.03 or 3.0 and from otherwise infringing Apple's copyrights and sought damages resulting from the alleged infringement.

The Company answered the complaint, raising affirmative defenses including its claim that the 1985 Settlement Agreement entitled it to use the visual displays in question, denying Apple's allegations that the visual displays in Microsoft Windows version 2.03 and 3.0 infringe any protectible right of Apple, and asserting counterclaims.

On August 24, 1993, the Court entered final judgment dismissing all of Apple's claims. Apple has appealed a number of the Court's decisions in the case to the Ninth Circuit Court of Appeals. Microsoft has cross-appealed the dismissal of one of its counterclaims and related issues. Oral argument on the appeal and cross-appeal was heard by Judges Ferdinand Fernandez, Pamela Rymmer, and Thomas Nelson on July 11, 1994.

On July 30, 1993 Wang Laboratories, Inc. (Wang) filed suit in U.S. District Court for the District of Massachusetts against Microsoft and Watermark Software, Inc., alleging that unspecified Microsoft products infringe two patents owned by Wang concerning object management and the handling of compound documents (United States Patents 5,206,951 issued on April 27, 1993, and 5,129,061 issued on July 7, 1992, respectively). The suit also alleges that Microsoft induced and continues to induce others, including Watermark Software, Inc., to infringe the Wang patents. Microsoft's OLE technology appears to be the subject of Wang's allegations against Microsoft. The complaint seeks a determination that Microsoft's alleged infringement is willful, an award of treble damages, an award of attorneys' fees, and to preliminarily and permanently enjoin Microsoft from continuing the alleged infringement. In its answer Microsoft denied that any of its products infringe the Wang patents and asked the Court for a declaratory judgment that those patents are invalid and unenforceable for failing to meet patent law requirements. The suit is currently in the early stages of discovery.

Although there is no assurance that these lawsuits will be resolved favorably and that the Company's financial condition will not be adversely affected, the Company currently believes that resolution of these matters will not have material adverse effects on its financial condition as reported in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS (cont.)
(In millions)

INFORMATION BY GEOGRAPHIC AREA

	1992	1993	1994
	-----	-----	-----
NET REVENUES			
U.S. operations	\$1,878	\$2,655	\$3,472
European operations	1,019	1,289	1,401
Other international operations	272	395	375
Eliminations	(410)	(586)	(599)
	-----	-----	-----
Total net revenues	\$2,759	\$3,753	\$4,649
	=====	=====	=====
OPERATING INCOME			
U.S. operations	\$ 664	\$ 961	\$1,394
European operations	329	360	346
Other international operations	11	18	31
Eliminations	(8)	(13)	(45)
	-----	-----	-----
Total operating income	\$ 996	\$1,326	\$1,726
	=====	=====	=====
IDENTIFIABLE ASSETS			
U.S. operations	\$1,858	\$2,944	\$4,397
European operations	872	1,133	1,366
Other international operations	289	310	423
Eliminations	(379)	(582)	(823)
	-----	-----	-----
Total identifiable assets	\$2,640	\$3,805	\$5,363
	=====	=====	=====

Intercompany sales between geographic areas are accounted for at prices representative of unaffiliated party transactions. "U.S. operations" include shipments to customers in the U.S., licensing to OEMs, and exports of finished goods directly to international customers, primarily in Canada, South America, and Asia. Exports and international OEM transactions are primarily in U.S. dollars and totaled \$255 million, \$426 million, and \$787 million in 1992, 1993, and 1994. "Other international operations" primarily include subsidiaries in Australia, Japan, Korea, and Taiwan. International revenues, which include European operations, other international operations, exports, and OEM distribution, were 55.1%, 55.3%, and 54.0% of total revenues in 1992, 1993, and 1994.

QUARTERLY FINANCIAL AND MARKET INFORMATION
(In millions, except per share data; unaudited)

	Quarter Ended				
	Sept. 30	Dec. 31	Mar. 31	June 30	Year
1992					
Net revenues	\$ 581	\$ 682	\$ 681	\$ 815	\$2,759
Gross profit	476	567	571	678	2,292
Net income	144	175	179	210	708
Earnings per share	0.25	0.30	0.30	0.35	1.20
Common stock price per share:					
High	30	37-3/8	44-1/2	43-1/8	44-1/2
Low	20-1/8	28-3/4	36-1/2	32-7/8	20-1/8
	=====	=====	=====	=====	=====
1993					
Net revenues	\$ 818	\$ 938	\$ 958	\$1,039	\$3,753
Gross profit	683	781	797	859	3,120
Net income	209	236	243	265	953
Earnings per share	0.35	0.39	0.40	0.43	1.57
Common stock price per share:					
High	41	47-1/2	47-1/8	49	49
Low	32-3/4	37-7/8	38-3/8	39-7/8	32-3/4
	=====	=====	=====	=====	=====
1994					
NET REVENUES	\$ 983	\$1,129	\$1,244	\$1,293	\$4,649
GROSS PROFIT	824	944	1,036	1,082	3,886
NET INCOME	239	289	256	362	1,146
EARNINGS PER SHARE	0.39	0.48	0.42	0.59	1.88
COMMON STOCK PRICE PER SHARE:					
HIGH	44-1/4	43-1/4	44-5/8	54-5/8	54-5/8
LOW	35-1/8	38	39	41	35-1/8
	=====	=====	=====	=====	=====

The Company has not paid cash dividends on its common stock. The Company's common stock is traded on the over-the-counter market and is quoted on the Nasdaq National Market System under the symbol MSFT. On July 29, 1994, there were 26,790 holders of record of the Company's common stock.

SELECTED FIVE-YEAR FINANCIAL DATA
(In millions, except employee and per share data)

	Year Ended June 30				
	1990	1991	1992	1993	1994
FOR THE YEAR					
Net revenues	\$1,183	\$1,843	\$2,759	\$3,753	\$4,649
Cost of revenues	253	362	467	633	763
Gross profit	930	1,481	2,292	3,120	3,886
Research and development	181	235	352	470	610
Sales and marketing	317	534	854	1,205	1,384
General and administrative	39	62	90	119	166
Total operating expenses	537	831	1,296	1,794	2,160
Operating income	393	650	996	1,326	1,726
Interest income - net	31	37	56	82	102
Litigation charge	--	--	--	--	(90)
Other expenses	(14)	(16)	(11)	(7)	(16)
Income before income taxes	410	671	1,041	1,401	1,722
Provision for income taxes	131	208	333	448	576
Net income	\$ 279	\$ 463	\$ 708	\$ 953	\$1,146
AT YEAR END					
Working capital	\$ 533	\$ 735	\$1,323	\$2,287	\$3,399
Total assets	\$1,105	\$1,644	\$2,640	\$3,805	\$5,363
Stockholders' equity	\$ 919	\$1,351	\$2,193	\$3,242	\$4,450
Number of employees	5,635	8,226	11,542	14,430	15,257
COMMON STOCK DATA					
Earnings per share	\$ 0.52	\$ 0.82	\$ 1.20	\$ 1.57	\$ 1.88
Cash and short-term investments per share	\$ 0.88	\$ 1.31	\$ 2.47	\$ 4.05	\$ 6.22
Average common and equivalent shares outstanding	537	563	588	606	610
Shares outstanding at year end	512	522	544	565	581
KEY RATIOS					
Current ratio	3.9	3.5	4.0	5.1	4.7
Return on net revenues	23.6%	25.1%	25.7%	25.4%	24.7%
Return on average total assets	30.6%	33.7%	33.1%	29.6%	25.0%
Return on average stockholders' equity	37.7%	40.8%	40.0%	35.1%	29.8%
GROWTH PERCENTAGES -- INCREASES					
Net revenues	47%	56%	50%	36%	24%
Net income	63%	66%	53%	35%	20%
Earnings per share	55%	58%	47%	31%	20%

REPORTS OF MANAGEMENT AND INDEPENDENT AUDITORS

REPORT OF MANAGEMENT

Management is responsible for preparing the Company's financial statements and related information that appears in this annual report. Management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures, and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

Deloitte & Touche audits the Company's financial statements in accordance with generally accepted auditing standards and provides an objective, independent review of the fairness of reported financial condition and results of operations.

The Microsoft Board of Directors has an Audit Committee composed of nonmanagement Directors. The Committee meets with financial management, internal auditors, and the independent auditors to review internal accounting controls and accounting, auditing, and financial reporting matters.

MICHAEL W. BROWN
Vice President, Finance;
Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying balance sheets of Microsoft Corporation and subsidiaries as of June 30, 1993 and 1994, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 1994, appearing on pages 2, 8, 9, 10, and 13 through 17. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 1993 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE
Seattle, Washington
July 20, 1994

Appendix A

PAGE WHERE GRAPHIC APPEARS	DESCRIPTION OF GRAPHIC AND IMAGE MATERIAL (In millions, except earnings per share)
2	Bar graph of Net Revenues. Data points: 1992-\$2,759, 1993-\$3,753, 1994-\$4,649
2	Bar graph of Net Income. Data points: 1992-\$708, 1993-\$953, 1994-\$1,146
2	Bar graph of Earnings Per Share. Data points: 1992-\$1.20, 1993-\$1.57, 1994-\$1.88
3	Bar graph of Systems Revenues. Data points: 1992-\$1,104, 1993-\$1,267, 1994-\$1,519
3	Bar graph of Applications Revenues. Data points: 1992-\$1,401, 1993-\$2,253, 1994-\$2,927
4	Bar graph of U.S. and Canada Revenues. Data points: 1992-\$1,062, 1993-\$1,371, 1994-\$1,575
4	Bar graph of Europe Revenues. Data points: 1992-\$997, 1993-\$1,259, 1994-\$1,363
4	Bar graph of Other International Revenues. Data points: 1992-\$223, 1993-\$392, 1994-\$532
4	Bar graph of OEM Revenues. Data points: 1992-\$477, 1993-\$731, 1994-\$1,179
7	Bar graph of Research and Development Spending. Data points: 1992-\$352, 1993-\$470, 1994-\$610
7	Bar graph of Sales and Marketing Spending. Data points: 1992-\$854, 1993-\$1,205, 1994-\$1,384
8	Bar graph of Cash and Short-Term Investments Data points: 1992-\$1,345, 1993-\$2,290, 1994-\$3,614
9	Pie Chart of Assets - 1994. Data points: Cash-67%, Other Current Assets-13%, PP&E-18%, Other-2%
9	Pie Chart of Liabilities and Stockholders' Equity - 1994. Data points: Liabilities-17%, Stockholders' Equity-83%
10	Bar graph of Stockholders' Equity. Data points: 1992-\$2,193, 1993-\$3,242, 1994-\$4,450
11	Pie Chart of Stakeholdings - 1994. Data points: Other Investors' Shares-53%, Employees' and Directors' Shares and Options-47%

SUBSIDIARIES

CorporacionMicrosoft del Ecuador SA	Microsoft Institute PTY Limited (Australian Educational Centre)
Corporation MS 90 de Venezuela SA	Microsoft International BV (The Netherlands Holding Company)
Dram Realty, Inc.	Microsoft Israel Limited
Forethought Inc.	Microsoft Kft (Hungary)
Fox Software, Inc.	Microsoft KK (Japan)
Fox Software Limited (United Kingdom)	Microsoft Limited (United Kingdom)
Fox Software SARL (France)	Microsoft Limited (Thailand)
Fox Software GmbH (Germany)	Microsoft Manufacturing BV (Ireland manufacturing)
ImageWare Research and Development, Inc. (Canada)	Microsoft Maroc SARL (Morocco)
MSHC Inc.	Microsoft Mexico, SA de CV
Microsoft BYHLS (Turkey)	Microsoft Middle East (United Arab Emirates)
Microsoft AO (Russia)	Microsoft Oy (Finland)
Microsoft AG (Switzerland)	Microsoft New Zealand Limited
Microsoft Aktiebolag (Sweden)	Microsoft Norge AS (Norway)
Microsoft BV (The Netherlands)	Microsoft NV (Belgium)
Microsoft Canada Inc.	Microsoft PTY Limited (Australia)
Microsoft Caribbean, Inc.	Microsoft PRC (Peoples Republic of China)
Microsoft CH (Korea)	Microsoft Peru, SA
Microsoft Chile SA	Microsoft Properties France SARL
Microsoft Colombia, Inc.	Microsoft Properties UK Limited (United Kingdom)
Microsoft Consulting Services Europe Limited	Microsoft Puerto Rico, Inc. (Manufacturing)
Microsoft Coris SPA (Italy Joint Venture/Olivetti)	Microsoft SA Limited (South Africa)
Microsoft Corporation (Dubai)	Microsoft Sdn Bhd (Malaysia)
Microsoft Corporation Limitada (Colombia)	Microsoft Singapore PTE Limited
Microsoft Corporation Private Limited (India)	Microsoft Software Para Microcomputadoras, LDA (Portugal)
Microsoft Danmark ApS (Denmark)	Microsoft SpA (Italy)
Microsoft Distribution Limited (Ireland)	Microsoft sp zo o (Poland)
Microsoft de Argentina SA	Microsoft sro (Czech Republic)
Microsoft de Centroamerica (Costa Rica)	Microsoft Systems Private Limited (India)
Microsoft Europe SARL (European Headquarters)	Microsoft Taiwan Corporation
Microsoft France SARL	Microsoft Workgroup Canada, Inc.
Microsoft FSC Corporation	Microsoft Venezuela, SA
Microsoft Gesellschaft mbH (Austria)	NRI India, Inc.
Microsoft GmbH (Germany)	Technology Resources Management Corporation
Microsoft HC, Inc. (Holding Company)	SOFTIMAGE Inc. (Canada)
Microsoft Hellas SA (Greece)	SOFTIMAGE France SARL
Microsoft Hong Kong Limited	SOFTIMAGE Italy SRL
Microsoft Iberica SRL (Spain)	SOFTIMAGE U.K. Limited
Microsoft Informatica Limitada (Brazil)	SoftCapital, Inc.
	The Monotype Corporation

INDEPENDENT AUDITORS' CONSENT

Microsoft Corporation:

We consent to the incorporation by reference in Registration Statement Numbers 33-37623, 33-33695, 33-25575, 33-18381, and 33-06335 (Microsoft Corporation 1981 Stock Option Plan), 33-44302 (Microsoft Corporation 1991 Stock Option Plan), 33-37622 (Microsoft Corporation 1991 Employee Stock Purchase Plan), 33-10732 (Microsoft Corporation Savings Plus Plan), 33-36498 (Microsoft Corporation Stock Option Plan for Non-Employee Directors) and 33-45617 (Microsoft Corporation Stock Option Plan for Consultants and Advisors) of Microsoft Corporation on Forms S-8 and 33-29823, 33-34794, 33-36347, 33-46958, and 33-49496 of Microsoft Corporation on Forms S-3 of our report dated July 20, 1994 appearing in and incorporated by reference in this Annual Report on Form 10-K of Microsoft Corporation for the year ended June 30, 1994.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
September 23, 1994

YEAR

	JUN-30-1994	
	JUN-30-1994	3,614
		0
		567
		92
		102
	4,312	1,445
		515
	5,363	
913		0
		1,500
0		0
		2,950
5,363		4,649
	4,649	763
		2,923
		4
		27
		0
	1,722	576
1,146		0
		0
		0
		1,146
		1.88
		0

EXHIBIT 99.1

MICROSOFT CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLAN

Financial Statements for the Three
Years Ended June 30, 1994, 1993, and 1992
And Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Plan Administrator
Microsoft Corporation
1991 Employee Stock Purchase Plan
Redmond, Washington

We have audited the accompanying statements of assets available for benefits of the Microsoft Corporation 1991 Employee Stock Purchase Plan (the Plan) as of June 30, 1994 and 1993, and the related statements of changes in assets available for benefits for the years ended June 30, 1994, 1993, and 1992. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the assets available for benefits of the Plan as of June 30, 1994 and 1993, and the changes in assets available for benefits for the years ended June 30, 1994, 1993, and 1992, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Seattle, Washington
September 16, 1994

MICROSOFT CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLANSTATEMENTS OF ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 1994 AND 1993

	June 30		1993
	1994	-----	1993
	----		----
ASSETS:			
Cash	\$492,243		\$961,962
	-----		-----
ASSETS AVAILABLE FOR BENEFITS	\$492,243		\$961,962
	=====		=====

See note to financial statements.

MICROSOFT CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLAN

STATEMENTS OF CHANGES IN ASSETS
AVAILABLE FOR BENEFITS
YEARS ENDED JUNE 30, 1994, 1993, AND 1992

	Year ended June 30		
	1994	1993	1992
ASSETS AVAILABLE FOR BENEFITS, beginning of period	\$ 961,962	\$ 366,638	\$ 92,313
ADDITIONS:			
Employee contributions	38,614,990	34,114,121	23,416,492
DEDUCTIONS:			
Cost of shares purchased	39,084,709	33,518,797	23,142,167
CHANGES IN ASSETS AVAILABLE FOR BENEFITS	(469,719)	595,324	274,325
ASSETS AVAILABLE FOR BENEFITS, end of period	\$ 492,243	\$ 961,962	\$ 366,638

See note to financial statements.

NOTE 1: THE PLAN

The following description of the Microsoft Corporation 1991 Employee Stock Purchase Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

GENERAL: The Plan Administrator believes the Plan meets the qualification standards of Section 423 of the Internal Revenue Code of 1986, and is exempt from federal income taxes. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Plan covers substantially all employees of Microsoft Corporation (the Company) whose customary employment is greater than 20 hours per week, and more than five months in any calendar year.

CONTRIBUTIONS: Participants may make contributions to the Plan through payroll deductions (not exceeding 10% of their compensation) for the purpose of purchasing the Company's common stock. The Plan commenced on January 1, 1991, and participants are given the opportunity to purchase shares on each June 30 and December 31 until such time as the Plan is terminated (see Termination of the Plan). The maximum number of shares that will be offered under the Plan is 6,750,000.

OPTIONS GRANTED AND WITHDRAWALS: Participants are granted the option to purchase shares of Microsoft Corporation common stock from the Company at 85% of the lesser of the fair market value on the first or last day of each six-month period ending June 30 or December 31. If the participant does not exercise the option, the Company refunds the participant for amounts withheld. The Plan purchased 1,147,508, 1,006,988, and 940,140 shares during the years ended June 30, 1994, 1993, and 1992, respectively. A total of 3,636,422 shares have been purchased under the Plan since inception with 3,113,578 shares reserved for future issue.

ASSETS AVAILABLE FOR BENEFITS: Assets available for benefits represent cash in participant accounts that was less than the amount necessary to purchase a full share and cash contributed to the Plan greater than the cost of the maximum number of shares allowed to be purchased in a six-month period (see Limitations). Participants may carry over such amounts to the next period.

LIMITATIONS: No employee shall be permitted to subscribe for any shares under the Plan if such employee owns shares representing 5% or more of the total combined voting power or value of all classes of shares of the Company. Additionally, no participant may purchase more than 2,250 shares of stock during a six-month period, or purchase shares through the Plan with an aggregate fair market value in excess of \$25,000 in any one calendar year.

TERMINATION OF THE PLAN: The Plan shall terminate at the earliest of the following:

- o December 31, 1996
- o The date of the filing of a statement of intent to dissolve by the Company or the effective date of a merger or consolidation (except with a related company) where the Company is not to be the surviving corporation
- o The date the Board acts to terminate the Plan
- o The date when all shares reserved under the Plan have been purchased

In the event of a dissolution, merger, or acquisition, the Company may permit a participating employee to exercise options to the extent that employee payroll deductions have accumulated. In the event of termination, Plan assets will be distributed to the participants.

PLAN ADMINISTRATION: All expenses for administration of the Plan are paid by the Company, and are not reflected in the accompanying statements.

MICROSOFT CORPORATION
SAVINGS PLUS PLAN

Financial Statements for the Year Ended December 31, 1993
and the Nine Months Ended December 31, 1992
And Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Plan Administrator
Microsoft Corporation Savings Plus Plan
Redmond, Washington

We have audited the accompanying statements of assets available for benefits of the Microsoft Corporation Savings Plus Plan (the Plan) as of December 31, 1993 and 1992, and the related statements of changes in assets available for benefits for the year ended December 31, 1993, and the nine-month period ended December 31, 1992. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the assets available for benefits of the Plan as of December 31, 1993 and 1992, and the related statements of changes in assets available for benefits for the year ended December 31, 1993, and the nine-month period ended December 31, 1992, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of assets held for investment as of December 31, 1993, and reportable transactions for the year then ended are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Deloitte & Touche LLP
Seattle, Washington
May 27, 1994

MICROSOFT CORPORATION SAVINGS PLUS PLAN

STATEMENTS OF ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 1993 AND 1992

	December 31	
	1993	1992
	-----	-----
ASSETS:		
Cash	\$ --	\$ 122,324
Investments held by trustee at fair value:		
Microsoft Corporation Stock Fund	57,717,671	53,422,326
Fidelity U.S. Equity Index Fund	20,685,406	16,240,119
Fidelity Retirement Money Market Fund	16,776,143	14,432,521
Fidelity Intermediate Bond Fund	14,653,568	10,914,219
Fidelity Magellan Fund	19,930,432	8,021,122
Fidelity Growth Company Fund	11,638,038	5,052,734
Fidelity Overseas Fund	5,292,574	1,597,921
	-----	-----
Total investments	146,693,832	109,680,962
Participant loans	1,122,588	--
	-----	-----
ASSETS AVAILABLE FOR BENEFITS	\$147,816,420	\$109,803,286
	=====	=====

See notes to financial statements.

MICROSOFT CORPORATION SAVINGS PLUS PLAN

STATEMENTS OF CHANGES IN ASSETS
AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 1993, AND
NINE-MONTH PERIOD ENDED DECEMBER 31, 1992

	Year ended December 31, 1993 -----	Nine months ended December 31, 1992 -----
ADDITIONS:		
Investment income:		
Interest and dividends	\$ 4,978,058	\$ 2,530,108
Realized and unrealized gain on investments	328,116 -----	4,705,139 -----
Total investment income	5,306,174	7,235,247
Contributions:		
Employer	8,539,976	5,003,882
Employee	26,901,086 -----	16,310,632 -----
Total contributions	35,441,062 -----	21,314,514 -----
Total additions	40,747,236	28,549,761
DEDUCTIONS:		
Benefits paid to participants	2,734,102 -----	1,320,423 -----
CHANGES IN ASSETS AVAILABLE FOR BENEFITS	38,013,134	27,229,338
ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	109,803,286 -----	82,573,948 -----
End of year	\$147,816,420 =====	\$109,803,286 =====

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1993, AND
NINE-MONTH PERIOD ENDED DECEMBER 31, 1992

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

The following description of the Microsoft Corporation Savings Plus Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

PLAN DESCRIPTION: The Plan is a defined contribution plan. All employees of Microsoft Corporation (the Company) who have reached 18 years of age may enroll during the month following completion of six months of service or during any subsequent quarterly enrollment period. The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA). The Plan has obtained a determination letter from the Internal Revenue Service which stated the Plan was in compliance with the applicable requirements of the Internal Revenue Code. The Plan is administered by the Vice President of Finance and Administration of Microsoft Corporation. The Plan Administrator believes the Plan is currently designed and is being operated in compliance with the applicable regulations.

CONTRIBUTIONS: Participants may contribute from 1% to 15% of their compensation, tax-deferred, through payroll deductions up to a maximum of \$8,994 under current law. The amount of a participant's tax-deferred contributions may be subject to limitations. Participant contributions may be suspended at any time. Contributions may be reinstated on the first day of the quarter that is at least six months after contributions were suspended.

The Company makes a matching contribution equal to 50% of participants' contributions up to 6% of participants' individual compensation. Company contributions are funded on a semimonthly basis.

VESTING: Employee contributions are fully vested immediately. Employer contributions vest fully upon completion of two years of service by a participant, or when a participant reaches age 65, dies, or becomes disabled.

DISTRIBUTIONS: Participants may make a withdrawal from the vested portion of their account if the Plan Administrator determines a withdrawal is necessary to avoid a financial hardship or if the participant is at least 59-1/2 years of age.

FORFEITURES: Any nonvested interest of a terminated employee shall not be forfeited to the Plan until a one-year period of severance service has passed. At this time, the forfeited amount is distributed to the Plan. If a terminated employee is reemployed before five consecutive one-year periods of severance have passed, the forfeited amount will be reallocated to the individual's account.

ADMINISTRATIVE EXPENSES: Expenses for administration of the Plan are paid by the Company.

PLAN AMENDMENT AND TERMINATION: The Company has the right to modify, amend, suspend or terminate the Plan at any time and for any reason. If the Plan is terminated, account balances will be fully vested and will be distributed in the form and manner determined by the Plan Administrator.

VALUATION OF INVESTMENTS AND PARTICIPANTS' LOANS: Investments are recorded at fair market value. Security transactions are accounted for as of the trade date. Fair market value is estimated based on quoted prices. Loans to participants are recorded at contract value, which approximates fair value. Dividend income is recorded on the ex-dividend date and interest income is recorded as earned.

NOTE 2: INVESTMENTS

Fidelity Investments (Fidelity) is trustee of the Plan. All Plan investments are held by Fidelity. Investment funds available to participants are summarized as follows:

MICROSOFT CORPORATION STOCK FUND: The Microsoft Corporation Stock Fund consists entirely of the Company's common stock.

FIDELITY U.S. EQUITY INDEX FUND: The Fidelity U.S. Equity Index Fund consists mainly of common stocks of the companies that make up Standard & Poor's 500 Index. The fund seeks investment results that correspond to the total return performance of United States publicly traded common stocks.

FIDELITY RETIREMENT MONEY MARKET FUND: The Fidelity Retirement Money Market Fund strives to maintain a stable \$1 share price while its yield will fluctuate with changes in market conditions. The fund seeks as high a level of current income as is consistent with the preservation of capital and liquidity.

FIDELITY INTERMEDIATE BOND FUND: The Fidelity Intermediate Bond Fund consists of investment-grade fixed income obligations. The fund seeks a high level of current income.

FIDELITY MAGELLAN FUND: The Fidelity Magellan Fund consists of common stocks, and securities convertible to common stock, issued by companies operating in the United States or abroad. The fund seeks long-term capital appreciation.

FIDELITY GROWTH COMPANY FUND: The Fidelity Growth Company Fund consists mainly of investments in companies with above average growth characteristics as demonstrated in earnings or gross sales. The fund seeks long-term capital appreciation.

FIDELITY OVERSEAS FUND: The Fidelity Overseas Fund consists of investments in securities of issuers whose principal activities are outside the United States. The fund seeks long-term capital appreciation.

NOTE 3: PARTICIPANT LOANS

Effective January 1, 1993, Plan participants are permitted to borrow up to 50% of the total vested account balance. Participants are limited to one residential loan and one nonresidential loan outstanding. The interest rate for residential loans is based on the yield for the Federal Home Loan Mortgage Corporation 30-year mortgage commitment for a standard conventional fixed rate mortgage, plus 1%. The interest rate for nonresidential loans will be the prime rate on corporate loans plus 1%. The range of interest rates was 7% - 8.93% for the year ended December 31, 1993. Loan repayment is made through after-tax semimonthly payroll deductions over a period of up to 15 years for residential loans and five years for nonresidential loans. If a participant's employment terminates for any reason and the loan balance is not paid in full by the participant in the month of termination, the loan balance will be canceled and become taxable income to the participant.

MICROSOFT CORPORATION SAVINGS PLUS PLAN

SUPPLEMENTAL SCHEDULE OF ASSETS HELD FOR INVESTMENT
DECEMBER 31, 1993

	Shares or units -----	Cost -----	Market value -----
DESCRIPTION OF ASSETS:			
Microsoft Corporation Stock Fund	715,878	\$ 33,905,044	\$ 57,717,671
Fidelity U.S. Equity Index Fund	1,197,765	18,511,037	20,685,406
Fidelity Retirement Money Market Fund	16,776,144	16,776,144	16,776,143
Fidelity Intermediate Bond Fund	1,359,329	14,182,245	14,653,568
Fidelity Magellan Fund	281,305	19,300,737	19,930,432
Fidelity Growth Company Fund	400,483	11,268,835	11,638,038
Fidelity Overseas Fund	192,948	4,786,436	5,292,574
		----- \$118,730,478 =====	----- \$146,693,832 =====

MICROSOFT CORPORATION SAVINGS PLUS PLAN

SUPPLEMENTAL SCHEDULE OF REPORTABLE TRANSACTIONS
YEAR ENDED DECEMBER 31, 1993

	Number of purchases/ sales -----	Cost of purchases -----	Amount of proceeds -----	Net gain on sale -----
SERIES OF TRANSACTIONS:				
Microsoft Corporation Stock Fund	251	\$13,196,163	\$5,804,119	\$2,208,875
Fidelity Magellan Fund	357	11,947,738	1,090,453	38,152
Fidelity Intermediate Bond Fund	401	5,547,662	2,199,338	90,118
Fidelity Retirement Money Market Fund	423	6,328,218	3,984,596	
Fidelity U.S. Equity Index Fund	389	6,015,224	2,527,591	250,572
Fidelity Growth Company Fund	328	7,316,725	918,736	88,261