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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

OR

☐ **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 **(Address of principal executive offices)**	**98052-6399** **(Zip Code)**

(425) 882-8080
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 17, 2012
Common Stock, $0.00000625 par value per share	8,400,866,103 shares

MICROSOFT CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Revenue	**$ 17,407**	$ 16,428	**$ 55,664**	$ 52,576
Operating expenses:				
Cost of revenue	**3,952**	3,897	**13,367**	11,869
Research and development	**2,517**	2,269	**7,217**	6,650
Sales and marketing	**3,414**	3,393	**10,076**	10,024
General and administrative	**1,150**	1,160	**3,433**	3,043
Total operating expenses	**11,033**	10,719	**34,093**	31,586
Operating income	**6,374**	5,709	**21,571**	20,990
Other income (expense)	**(11)**	316	**337**	762
Income before income taxes	**6,363**	6,025	**21,908**	21,752
Provision for income taxes	**1,255**	793	**4,438**	4,476
Net income	**$ 5,108**	$ 5,232	**$ 17,470**	$ 17,276
Earnings per share:				
Basic	**$ 0.61**	$ 0.62	**$ 2.08**	$ 2.03
Diluted	**$ 0.60**	$ 0.61	**$ 2.05**	$ 2.01
Weighted average shares outstanding:				
Basic	**8,401**	8,420	**8,398**	8,511
Diluted	**8,498**	8,510	**8,502**	8,609
Cash dividends declared per common share	**$ 0.20**	$ 0.16	**$ 0.60**	$ 0.48

See accompanying notes.

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BALANCE SHEETS

(In millions) (Unaudited)

	March 31, 2012	June 30, 2011[1]
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,388**	$ 9,610
Short-term investments (including securities loaned of **$1,181** and $1,181)	**53,141**	43,162
Total cash, cash equivalents, and short-term investments	**59,529**	52,772
Accounts receivable, net of allowance for doubtful accounts of **$322** and $333	**10,961**	14,987
Inventories	**1,412**	1,372
Deferred income taxes	**2,350**	2,467
Other	**2,608**	3,320
Total current assets	**76,860**	74,918
Property and equipment, net of accumulated depreciation of **$10,952** and $9,829	**8,225**	8,162
Equity and other investments	**9,068**	10,865
Goodwill	**19,698**	12,581
Intangible assets, net	**2,756**	744
Other long-term assets	**1,403**	1,434
Total assets	**$ 118,010**	$ 108,704
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 3,790**	$ 4,197
Accrued compensation	**3,272**	3,575
Income taxes	**958**	580
Short-term unearned revenue	**13,929**	15,722
Securities lending payable	**1,210**	1,208
Other	**3,011**	3,492
Total current liabilities	**26,170**	28,774
Long-term debt	**11,938**	11,921
Long-term unearned revenue	**1,262**	1,398
Deferred income taxes	**1,456**	1,456
Other long-term liabilities	**8,525**	8,072
Total liabilities	**49,351**	51,621
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital—shares authorized 24,000; outstanding **8,400** and 8,376	**65,273**	63,415
Retained earnings (deficit), including accumulated other comprehensive income of **$1,332** and $1,863	**3,386**	(6,332)
Total stockholders' equity	**68,659**	57,083
Total liabilities and stockholders' equity	**$ 118,010**	$ 108,704

(1) *Derived from audited financial statements.*

See accompanying notes.

PART I
Item 1

CASH FLOWS STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Operations				
Net income	**$ 5,108**	$ 5,232	**$ 17,470**	$ 17,276
Adjustments to reconcile net income to net cash from operations:				
Depreciation, amortization, and other	**766**	720	**2,170**	2,077
Stock-based compensation expense	**591**	541	**1,724**	1,622
Net recognized losses (gains) on investments and derivatives	**68**	(122)	**(74)**	(377)
Excess tax benefits from stock-based compensation	**(10)**	(5)	**(84)**	(14)
Deferred income taxes	**(134)**	(59)	**282**	(324)
Deferral of unearned revenue	**8,142**	6,616	**21,825**	19,331
Recognition of unearned revenue	**(8,283)**	(7,026)	**(23,993)**	(21,189)
Changes in operating assets and liabilities:				
Accounts receivable	**2,770**	3,031	**3,851**	3,435
Inventories	**(50)**	(170)	**(79)**	(258)
Other current assets	**73**	(618)	**938**	(487)
Other long-term assets	**9**	(8)	**(36)**	172
Accounts payable	**(114)**	(51)	**(380)**	(235)
Other current liabilities	**492**	237	**(107)**	(1,174)
Other long-term liabilities	**166**	354	**442**	1,197
Net cash from operations	**9,594**	8,672	**23,949**	21,052
Financing				
Short-term debt repayments, maturities of 90 days or less, net	**0**	0	**0**	(186)
Proceeds from issuance of debt, maturities longer than 90 days	**0**	2,239	**0**	6,960
Repayments of debt, maturities longer than 90 days	**0**	0	**0**	(814)
Common stock issued	**1,091**	1,405	**1,635**	2,242
Common stock repurchased	**(1,023)**	(848)	**(3,999)**	(10,299)
Common stock cash dividends paid	**(1,683)**	(1,349)	**(4,707)**	(3,830)
Excess tax benefits from stock-based compensation	**10**	5	**84**	14
Other	**0**	(15)	**0**	(40)
Net cash from (used in) financing	**(1,605)**	1,437	**(6,987)**	(5,953)
Investing				
Additions to property and equipment	**(749)**	(658)	**(1,683)**	(1,713)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	**(84)**	0	**(9,586)**	(69)
Purchases of investments	**(23,951)**	(14,394)	**(45,297)**	(27,707)
Maturities of investments	**4,236**	2,286	**13,122**	4,992
Sales of investments	**7,946**	5,738	**23,317**	9,768
Securities lending payable	**361**	(111)	**3**	1,063
Net cash used in investing	**(12,241)**	(7,139)	**(20,124)**	(13,666)
Effect of exchange rates on cash and cash equivalents	**30**	28	**(60)**	83
Net change in cash and cash equivalents	**(4,222)**	2,998	**(3,222)**	1,516
Cash and cash equivalents, beginning of period	**10,610**	4,023	**9,610**	5,505
Cash and cash equivalents, end of period	**$ 6,388**	$ 7,021	**$ 6,388**	$ 7,021

See accompanying notes.

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STOCKHOLDERS' EQUITY STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Common stock and paid-in capital				
Balance, beginning of period	**$ 63,902**	$ 61,646	**$ 63,415**	$ 62,856
Common stock issued	**1,091**	1,405	**1,635**	2,242
Common stock repurchased	**(262)**	(240)	**(1,426)**	(3,220)
Stock-based compensation expense	**591**	541	**1,724**	1,622
Stock-based compensation income tax deficiencies	**(50)**	(118)	**(79)**	(266)
Other, net	**1**	0	**4**	0
Balance, end of period	**65,273**	63,234	**65,273**	63,234
Retained earnings (deficit)				
Balance, beginning of period	**219**	(13,165)	**(6,332)**	(16,681)
Net income	**5,108**	5,232	**17,470**	17,276
Other comprehensive income:				
Net unrealized gains (losses) on derivatives	**(44)**	(70)	**192**	(656)
Net unrealized gains (losses) on investments	**474**	83	**(551)**	1,099
Translation adjustments and other	**76**	99	**(172)**	311
Comprehensive income	**5,614**	5,344	**16,939**	18,030
Common stock cash dividends	**(1,686)**	(1,353)	**(5,046)**	(4,052)
Common stock repurchased	**(761)**	(608)	**(2,175)**	(7,079)
Balance, end of period	**3,386**	(9,782)	**3,386**	(9,782)
Total stockholders' equity	**$ 68,659**	$ 53,452	**$ 68,659**	$ 53,452

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1   ACCOUNTING POLICIES

Accounting Principles

In the opinion of management, the accompanying balance sheets and related interim statements of income, cash flows, and stockholders' equity include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Microsoft Corporation 2011 Form 10-K filed on July 28, 2011 with the U.S. Securities and Exchange Commission.

Principles of Consolidation

The financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments through which we exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples include: estimates of loss contingencies, product warranties, product life cycles, product returns, and stock-based compensation forfeiture rates; assumptions such as the elements comprising a software arrangement, including the distinction between upgrades/enhancements and new products; when technological feasibility is achieved for our products; the potential outcome of future tax consequences of events that have been recognized in our financial statements or tax returns; estimating the fair value and/or potential goodwill impairment for our reporting units; and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

Recently Adopted Accounting Guidance

On July 1, 2011, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") on disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll-forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Adoption of this new guidance did not have a material impact on our financial statements.

On January 1, 2012, we adopted guidance issued by the FASB on accounting and disclosure requirements related to fair value measurements. The guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. Adoption of this new guidance did not have a material impact on our financial statements.

Recent Accounting Guidance Not Yet Adopted

In December 2011, the FASB issued guidance enhancing disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. The new guidance will be effective for us beginning July 1, 2013. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The new guidance will be effective for us beginning July 1, 2012.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. This portion of the guidance will be effective for us beginning July 1, 2012 and will require financial statement presentation changes only. The new guidance also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. However, in December 2011, the FASB issued guidance which indefinitely defers the guidance related to the presentation of reclassification adjustments.

NOTE 2 EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, stock awards, and shared performance stock awards. The components of basic and diluted EPS are as follows:

(In millions, except earnings per share)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Net income available for common shareholders (A)	**$ 5,108**	$ 5,232	**$ 17,470**	$ 17,276
Weighted average outstanding shares of common stock (B)	**8,401**	8,420	**8,398**	8,511
Dilutive effect of stock-based awards	**97**	90	**104**	98
Common stock and common stock equivalents (C)	**8,498**	8,510	**8,502**	8,609
Earnings Per Share:				
Basic (A/B)	**$ 0.61**	$ 0.62	**$ 2.08**	$ 2.03
Diluted (A/C)	**$ 0.60**	$ 0.61	**$ 2.05**	$ 2.01

We excluded the following shares underlying stock-based awards from the calculations of diluted EPS because their inclusion would have been anti-dilutive:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Shares excluded from calculations of diluted EPS	**0**	18	**1**	22

The decrease in anti-dilutive shares from the comparable period was due to the decrease in employee stock options outstanding and higher average share prices.

In June 2010, we issued $1.25 billion of zero-coupon debt securities that are convertible into shares of our common stock if certain conditions are met. As of March 31, 2012, none of these securities had met price or other conditions that would make them eligible for issuance and therefore were excluded from the calculation of both the basic and diluted EPS. See Note 11 – Debt for additional information.

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NOTE 3   OTHER INCOME (EXPENSE)

The components of other income (expense) were as follows:

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Dividends and interest income	**$ 180**	$ 216	**$ 573**	$ 631
Interest expense	**(95)**	(84)	**(284)**	(201)
Net recognized gains on investments	**34**	187	**352**	339
Net gains (losses) on derivatives	**(102)**	(65)	**(278)**	38
Net gains (losses) on foreign currency remeasurements	**(8)**	55	**(52)**	(14)
Other	**(20)**	7	**26**	(31)
Total	**$ (11)**	$ 316	**$ 337**	$ 762

Following are details of net recognized gains on investments during the periods reported:

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Other-than-temporary impairments of investments	**$ (82)**	$ (15)	**$ (234)**	$ (42)
Realized gains from sales of available-for-sale securities	**232**	244	**1,075**	559
Realized losses from sales of available-for-sale securities	**(116)**	(42)	**(489)**	(178)
Total	**$ 34**	$ 187	**$ 352**	$ 339

NOTE 4   INVESTMENTS

Investment Components

The components of investments, including associated derivatives, were as follows:

(In millions)	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
March 31, 2012							
Cash	**$ 2,080**	**$ 0**	**$ 0**	**$ 2,080**	**$ 2,080**	**$ 0**	**$ 0**
Mutual funds	**667**	**0**	**0**	**667**	**667**	**0**	**0**
Commercial paper	**329**	**0**	**0**	**329**	**29**	**300**	**0**
Certificates of deposit	**715**	**0**	**0**	**715**	**222**	**493**	**0**
U.S. government and agency securities	**43,803**	**118**	**(19)**	**43,902**	**965**	**42,937**	**0**
Foreign government bonds	**992**	**19**	**(21)**	**990**	**0**	**990**	**0**
Mortgage-backed securities	**1,757**	**106**	**(2)**	**1,861**	**0**	**1,861**	**0**
Corporate notes and bonds	**8,377**	**218**	**(9)**	**8,586**	**2,425**	**6,161**	**0**
Municipal securities	**350**	**46**	**(1)**	**395**	**0**	**395**	**0**
Common and preferred stock	**6,579**	**1,724**	**(195)**	**8,108**	**0**	**0**	**8,108**
Other investments	**964**	**0**	**0**	**964**	**0**	**4**	**960**
Total	**$ 66,613**	**$ 2,231**	**$ (247)**	**$ 68,597**	**$ 6,388**	**$ 53,141**	**$ 9,068**

(In millions)	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity and Other Investments
June 30, 2011							
Cash	$ 1,648	$ 0	$ 0	$ 1,648	$ 1,648	$ 0	$ 0
Mutual funds	1,752	0	0	1,752	1,752	0	0
Commercial paper	639	0	0	639	414	225	0
Certificates of deposit	598	0	0	598	372	226	0
U.S. government and agency securities	33,607	162	(7)	33,762	2,049	31,713	0
Foreign government bonds	658	11	(2)	667	0	667	0
Mortgage-backed securities	2,307	121	(4)	2,424	0	2,424	0
Corporate notes and bonds	10,575	260	(11)	10,824	3,375	7,449	0
Municipal securities	441	15	(2)	454	0	454	0
Common and preferred stock	7,925	2,483	(193)	10,215	0	0	10,215
Other investments	654	0	0	654	0	4	650
Total	$ 60,804	$ 3,052	$ (219)	$ 63,637	$ 9,610	$ 43,162	$ 10,865

Unrealized Losses on Investments

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2012						
U.S. government and agency securities	**$ 992**	**$ (19)**	**$ 0**	**$ 0**	**$ 992**	**$ (19)**
Foreign government bonds	**328**	**(21)**	**0**	**0**	**328**	**(21)**
Mortgage-backed securities	**0**	**0**	**51**	**(2)**	**51**	**(2)**
Corporate notes and bonds	**582**	**(8)**	**23**	**(1)**	**605**	**(9)**
Municipal securities	**37**	**(1)**	**0**	**0**	**37**	**(1)**
Common and preferred stock	**1,572**	**(172)**	**140**	**(23)**	**1,712**	**(195)**
Total	**$ 3,511**	**$ (221)**	**$ 214**	**$ (26)**	**$ 3,725**	**$ (247)**

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2011						
U.S. government and agency securities	$ 484	$ (7)	$ 0	$ 0	$ 484	$ (7)
Foreign government bonds	365	(2)	0	0	365	(2)
Mortgage-backed securities	63	(3)	14	(1)	77	(4)
Corporate notes and bonds	750	(10)	25	(1)	775	(11)
Municipal securities	79	(2)	0	0	79	(2)
Common and preferred stock	1,377	(146)	206	(47)	1,583	(193)
Total	$ 3,118	$ (170)	$ 245	$ (49)	$ 3,363	$ (219)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Unrealized losses from domestic and international equities are due to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of March 31, 2012.

At March 31, 2012 and June 30, 2011, the recorded bases of common and preferred stock and other investments that are restricted for more than one year or are not publicly traded were $444 million and $334 million, respectively. These investments are carried at cost and are reviewed quarterly for indicators of other-than-temporary impairment. It is not possible for us to reliably estimate the fair value of these investments.

Debt Investment Maturities

(In millions)	Cost Basis	Estimated Fair Value
March 31, 2012		
Due in one year or less	$ 22,282	$ 22,335
Due after one year through five years	28,547	28,661
Due after five years through 10 years	3,139	3,289
Due after 10 years	2,355	2,493
Total	$ 56,323	$ 56,778

NOTE 5 DERIVATIVES

We use derivative instruments to: manage risks related to foreign currencies, equity prices, interest rates, and credit; to enhance investment returns; and to facilitate portfolio diversification. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment. All notional amounts presented below are measured in U.S. currency equivalents.

Foreign Currency

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions. Option and forward contracts are used to hedge a portion of forecasted international revenue for up to three years in the future and are designated as cash flow hedging instruments. Principal currencies hedged include the euro, Japanese yen, British pound, and Canadian dollar. As of March 31, 2012 and June 30, 2011, the total notional amounts of these foreign exchange contracts sold were $7.8 billion and $10.6 billion, respectively.

Foreign currency risks related to certain non-U.S. dollar denominated securities are hedged using foreign exchange forward contracts that are designated as fair value hedging instruments. As of March 31, 2012 and June 30, 2011, the total notional amounts of these foreign exchange contracts sold were $543 million and $572 million, respectively.

Certain options and forwards not designated as hedging instruments are also used to manage the variability in exchange rates on accounts receivable, cash, and intercompany positions, and to manage other foreign currency exposures. As of March 31, 2012, the total notional amounts of these foreign exchange contracts purchased and sold were $3.1 billion and $3.9 billion, respectively. As of June 30, 2011, the total notional amounts of these foreign exchange contracts purchased and sold were $4.3 billion and $7.1 billion, respectively.

Equity

Securities held in our equity and other investments portfolio are subject to market price risk. Market price risk is managed relative to broad-based global and domestic equity indices using certain convertible preferred investments, options, futures, and swap contracts not designated as hedging instruments. From time to time, to hedge our price risk, we may use and designate equity derivatives as hedging instruments, including puts, calls, swaps, and forwards. As of March 31, 2012, the total notional amounts of designated and non-designated equity contracts purchased and sold were $1.2 billion and $1.0 billion, respectively. As of June 30, 2011, the total notional amounts of designated and non-designated equity contracts purchased and sold were $1.1 billion and $860 million, respectively.

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using exchange-traded option and futures contracts and over-the-counter swap and option contracts, none of which are designated as hedging instruments. As of March 31, 2012, the total notional amounts of fixed-interest rate contracts purchased and sold were $2.6 billion and $1.0 billion, respectively. As of June 30, 2011, the total notional amounts of fixed-interest rate contracts purchased and sold were $2.3 billion and $697 million, respectively.

In addition, we use "To Be Announced" forward purchase commitments of mortgage-backed assets to gain exposure to agency mortgage-backed securities. These meet the definition of a derivative instrument in cases where physical delivery of the assets is not taken at the earliest available delivery date. As of March 31, 2012 and June 30, 2011, the total notional derivative amount of mortgage contracts purchased were $1.1 billion and $868 million, respectively.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts, not designated as hedging instruments, to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. We use credit default swaps as they are a low-cost method of managing exposure to individual credit risks or groups of credit risks. As of March 31, 2012, the total notional amounts of credit contracts purchased and sold were $260 million and $323 million, respectively. As of June 30, 2011, the total notional amounts of credit contracts purchased and sold were $532 million and $281 million, respectively.

Commodity

We use broad-based commodity exposures to enhance portfolio returns and to facilitate portfolio diversification. We use swap, futures and option contracts, not designated as hedging instruments, to generate and manage exposures to broad-based commodity indices. We use derivatives on commodities as they can be low-cost alternatives to the purchase and storage of a variety of commodities, including, but not limited to, precious metals, energy, and grain. As of March 31, 2012, the total notional amounts of commodity contracts purchased and sold were $1.5 billion and $440 million, respectively. As of June 30, 2011, the total notional amounts of commodity contracts purchased and sold were $1.9 billion and $502 million, respectively.

Credit-Risk-Related Contingent Features

Certain of our counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain a minimum liquidity of $1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of March 31, 2012, our long-term unsecured debt rating was AAA, and cash investments were in excess of $1.0 billion. As a result, no collateral was required to be posted.

Fair Values of Derivative Instruments

Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as fair value hedges, the gain (loss) is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged items attributed to the risk being hedged. For options designated as fair-value hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

For derivative instruments designated as cash-flow hedges, the effective portion of the derivative's gain (loss) is initially reported as a component of other comprehensive income ("OCI") and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For options designated as cash-flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains (losses) on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

For derivative instruments that are not designated as hedges, gains (losses) from changes in fair values are primarily recognized in other income (expense). Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities, which are recorded as a component of OCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are moved from OCI into other income (expense).

The following tables present the gross fair values of derivative instruments designated as hedging instruments (“designated hedge derivatives”) and not designated as hedging instruments (“non-designated hedge derivatives”). The fair values exclude the impact of netting derivative assets and liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk:

(In millions)	Foreign Exchange Contracts	Equity Contracts	Interest Rate Contracts	Credit Contracts	Commodity Contracts	Total Derivatives
March 31, 2012						
Assets						
Non-designated hedge derivatives:						
Short-term investments	**$ 20**	**$ 149**	**$ 16**	**$ 19**	**$ 1**	**$ 205**
Other current assets	**42**	**0**	**0**	**0**	**0**	**42**
Total	**$ 62**	**$ 149**	**$ 16**	**$ 19**	**$ 1**	**$ 247**
Designated hedge derivatives:						
Short-term investments	**$ 4**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 4**
Other current assets	**136**	**0**	**0**	**0**	**0**	**136**
Total	**$ 140**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 140**
Total assets	**$ 202**	**$ 149**	**$ 16**	**$ 19**	**$ 1**	**$ 387**
Liabilities						
Non-designated hedge derivatives:						
Other current liabilities	**$ (39)**	**$ (14)**	**$ (3)**	**$ (13)**	**$ (1)**	**$ (70)**
Designated hedge derivatives:						
Other current liabilities	**$ (16)**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ (16)**
Total liabilities	**$ (55)**	**$ (14)**	**$ (3)**	**$ (13)**	**$ (1)**	**$ (86)**

(In millions)	Foreign Exchange Contracts	Equity Contracts	Interest Rate Contracts	Credit Contracts	Commodity Contracts	Total Derivatives
June 30, 2011						
Assets						
Non-designated hedge derivatives:						
Short-term investments	$ 14	$ 179	$ 0	$ 17	$ 4	$ 214
Other current assets	73	0	0	0	0	73
Total	$ 87	$ 179	$ 0	$ 17	$ 4	$ 287
Designated hedge derivatives:						
Short-term investments	$ 6	$ 0	$ 0	$ 0	$ 0	$ 6
Other current assets	123	0	0	0	0	123
Total	$ 129	$ 0	$ 0	$ 0	$ 0	$ 129
Total assets	$ 216	$ 179	$ 0	$ 17	$ 4	$ 416
Liabilities						
Non-designated hedge derivatives:						
Other current liabilities	$ (91)	$ (12)	$ (9)	$ (19)	$ (4)	$ (135)
Designated hedge derivatives:						
Other current liabilities	$ (128)	$ 0	$ 0	$ 0	$ 0	$ (128)
Total liabilities	$ (219)	$ (12)	$ (9)	$ (19)	$ (4)	$ (263)

See also Note 4—Investments and Note 6—Fair Value Measurements.

Fair-Value Hedge Gains (Losses)

We recognized in other income the following gains (losses) on contracts designated as fair value hedges and their related hedged items:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Foreign Exchange Contracts				
Derivatives	**$ (12)**	$ (28)	**$ 36**	$ (78)
Hedged items	**11**	26	**(37)**	74
Total	**$ (1)**	$ (2)	**$ (1)**	$ (4)

Cash Flow Hedge Gains (Losses)

We recognized the following gains (losses) on foreign exchange contracts designated as cash flow hedges (our only cash flow hedges during the periods presented):

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Effective Portion				
Gain (loss) recognized in OCI, net of tax effect of **$(28)** and $(48) for the three months ended March 31, 2012 and 2011, and **$74** and $(315) for the nine months ended March 31, 2012 and 2011	**$ (52)**	$ (90)	**$ 138**	$ (587)
Gain (loss) reclassified from OCI into revenue	**(12)**	(30)	**(82)**	109
Amount Excluded from Effectiveness Assessment and Ineffective Portion				
Loss recognized in other income (expense)	**(107)**	(123)	**(172)**	(226)

We estimate that $46 million of net derivative gains included in OCI at March 31, 2012 will be reclassified into earnings within the following 12 months. No significant amounts of gains (losses) were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the three and nine months ended March 31, 2012.

Non-Designated Derivative Gains (Losses)

Gains (losses) from changes in fair values of derivatives that are not designated as hedges are primarily recognized in other income (expense). These amounts are shown in the table below, with the exception of gains (losses) on derivatives presented in income statement line items other than other income (expense), which were immaterial for the periods presented. Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) below are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities.

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Foreign exchange contracts	**$ (44)**	$ 51	**$ (109)**	$ (34)
Equity contracts	**5**	8	**(63)**	39
Interest-rate contracts	**21**	8	**79**	20
Credit contracts	**(6)**	(3)	**(13)**	25
Commodity contracts	**(1)**	48	**(89)**	206
Total	**$ (25)**	$ 112	**$ (195)**	$ 256

NOTE 6 FAIR VALUE MEASUREMENTS

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- *Level 1*—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. Our Level 1 non-derivative investments primarily include U.S. treasuries, domestic and international equities, and actively traded mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.
- *Level 2*—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies and commodities. Our Level 2 non-derivative investments consist primarily of corporate notes and bonds, mortgage-backed securities, agency securities, certificates of deposit, and commercial paper. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter option and swap contracts.
- *Level 3*—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 non-derivative assets primarily comprise investments in certain corporate bonds. We value these corporate bonds using internally developed valuation models, inputs to which include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair values of the investments. Our Level 3 derivative assets and liabilities primarily comprise derivatives for foreign equities. In certain cases, market-based observable inputs are not available and we use management judgment to develop assumptions to determine fair value for these derivatives.

We measure certain assets, including our cost and equity method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value of our financial instruments that are measured at fair value on a recurring basis:

(In millions)	Level 1	Level 2	Level 3	Gross Fair Value	Netting[(a)]	Net Fair Value
March 31, 2012						
Assets						
Mutual funds	$ 667	$ 0	$ 0	$ 667	$ 0	$ 667
Commercial paper	0	329	0	329	0	329
Certificates of deposit	0	715	0	715	0	715
U.S. government and agency securities	37,226	6,666	0	43,892	0	43,892
Foreign government bonds	10	979	0	989	0	989
Mortgage-backed securities	0	1,865	0	1,865	0	1,865
Corporate notes and bonds	0	8,418	9	8,427	0	8,427
Municipal securities	0	395	0	395	0	395
Common and preferred stock	7,603	56	5	7,664	0	7,664
Derivatives	12	375	0	387	(78)	309
Total	$ 45,518	$ 19,798	$ 14	$ 65,330	$ (78)	$ 65,252
Liabilities						
Derivatives and other	$ 4	$ 82	$ 0	$ 86	$ (76)	$ 10

(In millions)	Level 1	Level 2	Level 3	Gross Fair Value	Netting[(a)]	Net Fair Value
June 30, 2011						
Assets						
Mutual funds	$ 1,752	$ 0	$ 0	$ 1,752	$ 0	$ 1,752
Commercial paper	0	639	0	639	0	639
Certificates of deposit	0	598	0	598	0	598
U.S. government and agency securities	23,591	10,175	0	33,766	0	33,766
Foreign government bonds	303	367	0	670	0	670
Mortgage-backed securities	0	2,428	0	2,428	0	2,428
Corporate notes and bonds	0	10,600	58	10,658	0	10,658
Municipal securities	0	454	0	454	0	454
Common and preferred stock	9,821	55	5	9,881	0	9,881
Derivatives	8	388	20	416	(204)	212
Total	$ 35,475	$ 25,704	$ 83	$ 61,262	$ (204)	$ 61,058
Liabilities						
Derivatives and other	$ 109	$ 257	$ 0	$ 366	$ (203)	$ 163

(a) *These amounts represent the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk.*

The following table reconciles the total Net Fair Value of assets above to the balance sheet presentation of these same assets in Note 4 – Investments.

(In millions)	March 31, 2012	June 30, 2011
Net fair value of assets measured at fair value on a recurring basis	**$ 65,252**	$ 61,058
Cash	**2,080**	1,648
Common and preferred stock measured at fair value on a nonrecurring basis	**444**	334
Other investments measured at fair value on a nonrecurring basis	**960**	650
Less derivative assets classified as other current assets	**(140)**	(54)
Other	**1**	1
Recorded basis of investment components	**$ 68,597**	$ 63,637

Changes in Financial Instruments Measured at Level 3 Fair Value on a Recurring Basis

The following tables present the changes during the periods presented in our Level 3 financial instruments that are measured at fair value on a recurring basis. The majority of these instruments consist of investment securities classified as available-for-sale with changes in fair value included in OCI.

(In millions)	Corporate Notes and Bonds	Common and Preferred Stock	Derivative Assets	Total
Three and Nine Months Ended March 31, 2012				
Balance as of June 30, 2011	**$ 58**	**$ 5**	**$ 20**	**$ 83**
Total realized and unrealized gains (losses):				
Included in other income (expense)	**0**	**0**	**(2)**	**(2)**
Included in other comprehensive income	**(21)**	**0**	**0**	**(21)**
Balance as of September 30, 2011	**$ 37**	**$ 5**	**$ 18**	**$ 60**
Total realized and unrealized gains (losses):				
Included in other income (expense)	**0**	**0**	**(3)**	**(3)**
Included in other comprehensive income	**0**	**0**	**0**	**0**
Conversions of Level 3 instruments to Level 1 instruments	**(28)**	**0**	**(15)**	**(43)**
Balance as of December 31, 2011	**$ 9**	**$ 5**	**$ 0**	**$ 14**
Total realized and unrealized gains (losses):				
Included in other income (expense)	**0**	**0**	**0**	**0**
Included in other comprehensive income	**0**	**0**	**0**	**0**
Balance as of March 31, 2012	**$ 9**	**$ 5**	**$ 0**	**$ 14**
Change in unrealized gains (losses) included in other income (expense) for the three months ended March 31, 2012 related to assets held as of March 31, 2012	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Change in unrealized gains (losses) included in other income (expense) for the nine months ended March 31, 2012 related to assets held as of March 31, 2012	**$ 0**	**$ 0**	**$ 0**	**$ 0**

(In millions)	Corporate Notes and Bonds	Common and Preferred Stock	Derivative Assets	Total
Three and Nine Months Ended March 31, 2011				
Balance as of June 30, 2010	$ 167	$ 5	$ 9	$ 181
Total realized and unrealized gains (losses):				
Included in other income (expense)	2	0	7	9
Included in other comprehensive income	(2)	0	0	(2)
Balance as of September 30, 2010	$ 167	$ 5	$ 16	$ 188
Total realized and unrealized gains (losses):				
Included in other income (expense)	2	0	(1)	1
Included in other comprehensive income	2	0	0	2
Balance as of December 31, 2010	$ 171	$ 5	$ 15	$ 191
Total realized and unrealized gains (losses):				
Included in other income (expense)	34	0	(1)	33
Included in other comprehensive income	(55)	0	0	(55)
Purchases, issuances and settlements	(85)	0	0	(85)
Balance as of March 31, 2011	$ 65	$ 5	$ 14	$ 84
Change in unrealized gains (losses) included in other income (expense) for the three months ended March 31, 2011 related to assets held as of March 31, 2011	$ 1	$ 0	$ (1)	$ 0
Change in unrealized gains (losses) included in other income (expense) for the nine months ended March 31, 2011 related to assets held as of March 31, 2011	$ 5	$ 0	$ 5	$ 10

Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

During the three and nine months ended March 31, 2012 and 2011, we did not record any other-than-temporary impairments on those financial assets required to be measured at fair value on a nonrecurring basis.

NOTE 7 INVENTORIES

The components of inventories were as follows:

(In millions)	March 31, 2012	June 30, 2011
Raw materials	**$ 233**	$ 232
Work in process	**73**	56
Finished goods	**1,106**	1,084
Total	**$ 1,412**	$ 1,372

NOTE 8 BUSINESS COMBINATIONS

On October 13, 2011, we acquired all of the issued and outstanding shares of Skype Global S.á r.l. ("Skype"), a leading global provider of software applications and related Internet communications products based in Luxembourg, for $8.6 billion primarily in cash. Our purchase price allocations are preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available, including additional information relating to tax matters and finalization of our valuation of identified intangible assets. The major classes of assets and liabilities to which we preliminarily allocated the purchase price were: goodwill of $7.1 billion; identifiable intangible assets of $1.6 billion with a weighted average estimated useful life of 13 years, primarily marketing-related (trade name) and technology-based intangibles with estimated useful lives of 15 years and 5 years, respectively; and unearned revenue of $222 million. The goodwill recognized in connection with the acquisition is primarily attributable to our expectation of extending Skype's brand and the reach of its networked platform, while enhancing Microsoft's existing portfolio of real-time communications products and services. We preliminarily assigned the goodwill to the following segments: $4.2 billion to Entertainment and Devices Division, $2.8 billion to Microsoft Business Division, and $54 million to Online Services Division. Skype was consolidated into our results of operations starting October 13, 2011, the acquisition date.

During the first nine months of fiscal year 2012, we completed an additional three acquisitions for total consideration of $83 million, substantially all of which was paid in cash.

Pro forma results of operations have not been presented because the effects of the business combinations described in this Note, individually and in aggregate, were not material to our consolidated results of operations.

NOTE 9 GOODWILL

Changes in the carrying amount of goodwill were as follows:

(In millions)	Balance as of December 31, 2011	Acquisitions	Other	Balance as of March 31, 2012
Windows & Windows Live Division	$ 89	**$ 0**	**$ 0**	**$ 89**
Server and Tools	1,144	**0**	**0**	**1,144**
Online Services Division	6,427	**0**	**(11)**	**6,416**
Microsoft Business Division	6,927	**0**	**36**	**6,963**
Entertainment and Devices Division	5,083	**0**	**3**	**5,086**
Total	$ 19,670	**$ 0**	**$ 28**	**$ 19,698**

(In millions)	Balance as of June 30, 2011	Acquisitions	Other	Balance as of March 31, 2012
Windows & Windows Live Division	$ 89	**$ 0**	**$ 0**	**$ 89**
Server and Tools	1,139	**7**	**(2)**	**1,144**
Online Services Division	6,373	**54**	**(11)**	**6,416**
Microsoft Business Division	4,167	**2,843**	**(47)**	**6,963**
Entertainment and Devices Division	813	**4,272**	**1**	**5,086**
Total	$ 12,581	**$ 7,176**	**$ (59)**	**$ 19,698**

We do not expect any of the amounts recorded as goodwill to be deductible for tax purposes. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available, but will not exceed 12 months. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred. Any change in the goodwill amounts resulting from foreign currency translations are presented as "other" in the above table. Also included within "other" are business dispositions and transfers between business segments due to reorganizations, as applicable.

NOTE 10 INTANGIBLE ASSETS

The components of intangible assets, all of which are finite-lived, were as follows:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			March 31, 2012			June 30, 2011
Technology-based[(a)]	**$ 3,011**	**$ (2,058)**	**$ 953**	$ 2,356	$ (1,831)	$ 525
Marketing-related	**1,331**	**(119)**	**1,212**	113	(98)	15
Contract-based	**1,421**	**(1,002)**	**419**	1,068	(966)	102
Customer-related	**425**	**(253)**	**172**	326	(224)	102
Total	**$ 6,188**	**$ (3,432)**	**$ 2,756**	$ 3,863	$ (3,119)	$ 744

(a) *Technology-based intangible assets included $137 million and $179 million as of March 31, 2012 and June 30, 2011, respectively, of net carrying amount of software to be sold, leased, or otherwise marketed.*

Intangible assets amortization expense was $142 million and $406 million for the three and nine months ended March 31, 2012, respectively, as compared with $162 million and $412 million for the three and nine months ended March 31, 2011, respectively. Amortization of capitalized software was $28 million and $85 million for the three and nine months ended March 31, 2012, respectively, and $30 million and $86 million for the three and nine months ended March 31, 2011, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held at March 31, 2012:

(In millions)	
Year Ending June 30,	
2012 (excluding the nine months ended March 31, 2012)	$ 148
2013	528
2014	362
2015	299
2016	254
Thereafter	1,165
Total	$ 2,756

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NOTE 11 DEBT

As of March 31, 2012, the total carrying value and estimated fair value of our long-term debt, including convertible debt, were $11.9 billion and $13.0 billion, respectively. This is compared to a carrying value and estimated fair value of $11.9 billion and $12.1 billion, respectively, as of June 30, 2011. The estimated fair value is based on Level 2 inputs.

The components of long-term debt, the associated interest rates, and the semi-annual interest record and payment dates were as follows as of March 31, 2012:

Due Date	Face Value	Stated Interest Rate	Effective Interest Rate	Interest Record Date	Interest Pay Date	Interest Record Date	Interest Pay Date
	(In millions)						
Notes							
September 27, 2013	**$ 1,000**	**0.875%**	**1.000%**	**March 15**	**March 27**	**September 15**	**September 27**
June 1, 2014	**2,000**	**2.950%**	**3.049%**	**May 15**	**June 1**	**November 15**	**December 1**
September 25, 2015	**1,750**	**1.625%**	**1.795%**	**March 15**	**March 25**	**September 15**	**September 25**
February 8, 2016	**750**	**2.500%**	**2.642%**	**February 1**	**February 8**	**August 1**	**August 8**
June 1, 2019	**1,000**	**4.200%**	**4.379%**	**May 15**	**June 1**	**November 15**	**December 1**
October 1, 2020	**1,000**	**3.000%**	**3.137%**	**March 15**	**April 1**	**September 15**	**October 1**
February 8, 2021	**500**	**4.000%**	**4.082%**	**February 1**	**February 8**	**August 1**	**August 8**
June 1, 2039	**750**	**5.200%**	**5.240%**	**May 15**	**June 1**	**November 15**	**December 1**
October 1, 2040	**1,000**	**4.500%**	**4.567%**	**March 15**	**April 1**	**September 15**	**October 1**
February 8, 2041	**1,000**	**5.300%**	**5.361%**	**February 1**	**February 8**	**August 1**	**August 8**
Total	**10,750**						
Convertible Debt							
June 15, 2013	**1,250**	**0.000%**	**1.849%**				
Total unamortized discount	**(62)**						
Total	**$ 11,938**						

The components of long-term debt, the associated interest rates, and the semi-annual interest record and payment dates were as follows as of June 30, 2011:

Due Date	Face Value	Stated Interest Rate	Effective Interest Rate	Interest Record Date	Interest Pay Date	Interest Record Date	Interest Pay Date
	(In millions)						
Notes							
September 27, 2013	$ 1,000	0.875%	1.000%	March 15	March 27	September 15	September 27
June 1, 2014	2,000	2.950%	3.049%	May 15	June 1	November 15	December 1
September 25, 2015	1,750	1.625%	1.795%	March 15	March 25	September 15	September 25
February 8, 2016	750	2.500%	2.642%	February 1	February 8	August 1	August 8
June 1, 2019	1,000	4.200%	4.379%	May 15	June 1	November 15	December 1
October 1, 2020	1,000	3.000%	3.137%	March 15	April 1	September 15	October 1
February 8, 2021	500	4.000%	4.082%	February 1	February 8	August 1	August 8
June 1, 2039	750	5.200%	5.240%	May 15	June 1	November 15	December 1
October 1, 2040	1,000	4.500%	4.567%	March 15	April 1	September 15	October 1
February 8, 2041	1,000	5.300%	5.361%	February 1	February 8	August 1	August 8
Total	10,750						
Convertible Debt							
June 15, 2013	1,250	0.000%	1.849%				
Total unamortized discount	(79)						
Total	$ 11,921						

Notes

The Notes are senior unsecured obligations and rank equally with our other unsecured and unsubordinated debt outstanding.

Convertible Debt

In June 2010, we issued $1.25 billion of zero coupon convertible unsecured debt due on June 15, 2013 in a private placement offering. Proceeds from the offering were $1.24 billion, net of fees and expenses, which were capitalized. Each $1,000 principal amount of notes is convertible into 29.94 shares of Microsoft common stock at a conversion price of $33.40 per share. As of March 31, 2012, the net carrying amount of our convertible debt was $1.2 billion and the unamortized discount was $24 million.

Prior to March 15, 2013, the notes will be convertible, only in certain circumstances, into cash and, if applicable, cash, shares of Microsoft's common stock, or a combination thereof, at our election. On or after March 15, 2013, the notes will be convertible at any time. Upon conversion, we will pay cash up to the aggregate principal amount of the notes and pay or deliver cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

Because the convertible debt may be wholly or partially settled in cash, we are required to separately account for the liability and equity components of the notes in a manner that reflects our nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The net proceeds of $1.24 billion were allocated between debt for $1.18 billion and stockholders' equity for $58 million with the portion in stockholders' equity representing the fair value of the option to convert the debt.

In connection with the issuance of the notes, we entered into capped call transactions with certain option counterparties who are initial purchasers of the notes or their affiliates. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the notes. Under the capped call transactions, we purchased from the option counterparties capped call options that in the aggregate relate to the total number of shares of our common stock underlying the notes, with a strike price equal to the conversion price of the notes and with a cap price equal to $37.16. The purchased capped calls were valued at $40 million and recorded to stockholders' equity.

NOTE 12   INCOME TAXES

Our effective tax rates were approximately 20% and 13% for the three months ended March 31, 2012 and 2011, respectively, and 20% and 21% for the nine months ended March 31, 2012 and 2011, respectively. Our effective tax rate was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations centers in Ireland, Singapore, and Puerto Rico, which are subject to lower income tax rates. In addition, there was a settlement of a portion of a U.S. Internal Revenue Service ("I.R.S.") audit of tax years 2004 to 2006, which reduced our income tax expense for the quarter ended March 31, 2011 by $461 million.

Tax contingencies and other tax liabilities were $7.9 billion and $7.4 billion as of March 31, 2012 and June 30, 2011, respectively, and are included in other long-term liabilities. While we settled a portion of the I.R.S. audit for tax years 2004 to 2006 during the third quarter of fiscal year 2011, we remain under audit for these years. In February 2012, the I.R.S. withdrew its 2011 Revenue Agents Report and reopened the audit phase of the examination. As of March 31, 2012, the primary unresolved issue relates to transfer pricing which could have a significant impact on our financial statements if not resolved favorably. We believe our reserves are adequate. We do not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months, as we do not believe the remaining open issues will be resolved within the next 12 months. We also continue to be subject to examination by the I.R.S. for tax years 2007 to 2011.

We are subject to income tax in many jurisdictions outside the U.S. Certain jurisdictions remain subject to examination for tax years 1996 to 2010, some of which are currently under audit by local tax authorities. The resolutions of these audits are not expected to be material to our financial statements.

NOTE 13 UNEARNED REVENUE

The components of unearned revenue were as follows:

(In millions)	March 31, 2012	June 30, 2011
Volume licensing programs	**$ 12,481**	$ 14,625
Other	**2,710**	2,495
Total	**$ 15,191**	$ 17,120

Unearned revenue by segment was as follows:

(In millions)	March 31, 2012	June 30, 2011
Windows & Windows Live Division	**$ 1,453**	$ 1,782
Server and Tools	**5,743**	6,315
Microsoft Business Division	**6,694**	8,187
Other segments	**1,301**	836
Total	**$ 15,191**	$ 17,120

Fiscal year 2011 amounts have been recast for the fiscal year 2012 movement of Forefront Protection for Office, an anti-malware solution, from Server and Tools to the Microsoft Business Division.

NOTE 14 COMMITMENTS AND GUARANTEES

Yahoo! Commercial Agreement

On December 4, 2009, we entered into a 10-year agreement with Yahoo! whereby Microsoft will provide the exclusive algorithmic and paid search platform for Yahoo! Web sites. Microsoft provided Yahoo! with revenue per search guarantees for a period of 18 months after implementation of the Microsoft search ads platform in each country, extended by an additional 12 months for the U.S. and Canada. These guarantees are calculated, paid, and adjusted periodically and are rate guarantees, not guarantees of search volume. We estimate the remaining cost of the revenue per search guarantees during the guarantee period could range up to $150 million.

Product Warranty

The changes in our aggregate product warranty liabilities, which are included in other current liabilities and other long-term liabilities on our balance sheets were as follows:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Balance, beginning of period	**$ 167**	$ 202	**$ 172**	$ 240
Accruals for warranties issued	**12**	14	**43**	46
Settlements of warranty claims	**(16)**	(31)	**(52)**	(101)
Balance, end of period	**$ 163**	$ 185	**$ 163**	$ 185

NOTE 15 CONTINGENCIES

Antitrust, Unfair Competition, and Overcharge Class Actions

A large number of antitrust and unfair competition class action lawsuits were filed against us in various state, federal, and Canadian courts on behalf of various classes of direct and indirect purchasers of our PC operating system and certain other software products. We obtained dismissals or reached settlements of all claims that have been made to date in the United States.

All settlements in the United States have received final court approval. Under the settlements, generally class members can obtain vouchers that entitle them to be reimbursed for purchases of a wide variety of platform-neutral computer hardware and software. The total value of vouchers that we may issue varies by state. We will make available to certain schools a percentage of those vouchers that are not issued or claimed (one-half to two-thirds depending on the state). The total value of vouchers we ultimately issue will depend on the number of class members who make claims and are issued vouchers. The maximum value of vouchers to be issued is approximately $2.7 billion. The actual costs of these settlements will be less than that maximum amount, depending on the number of class members and schools that are issued and redeem vouchers. We estimate the total cost to resolve all of the state overcharge class action cases will range between $1.9 billion and $2.0 billion. At March 31, 2012, we have recorded a liability related to these claims of approximately $500 million, which reflects our estimated exposure of $1.9 billion less payments made to date of approximately $1.4 billion mostly for vouchers, legal fees, and administrative expenses.

The three cases pending in British Columbia, Ontario, and Quebec, Canada have not been settled. In March 2010, the court in the British Columbia case certified it as a class action. In April 2011, the British Columbia Court of Appeal reversed the class certification ruling and dismissed the case, holding that indirect purchasers do not have a claim. The plaintiffs have appealed to the Canadian Supreme Court, which will be heard in the fall of 2012. The other two actions have been stayed.

Other Antitrust Litigation and Claims

In November 2004, Novell, Inc. (“Novell”) filed a complaint in U.S. District Court for the District of Utah (later transferred to federal court in Maryland), asserting antitrust and unfair competition claims against us related to Novell’s ownership of WordPerfect and other productivity applications during the period between June 1994 and March 1996. In June 2005, the trial court granted our motion to dismiss four of six claims of the complaint. In March 2010, the trial court granted summary judgment in favor of Microsoft as to all remaining claims. The court of appeals reversed that ruling as to one claim. Trial of that claim took place from October to December 2011 and resulted in a mistrial because the jury was unable to reach a verdict. Microsoft has filed a motion for judgment as a matter of law. The court has not set a new trial date.

Patent and Intellectual Property Claims

Uniloc Litigation

In October 2003, Uniloc USA Inc. (“Uniloc”), a subsidiary of a Singapore-based company, filed a patent infringement suit in U.S. District Court in Rhode Island, claiming that product activation technology supporting Windows XP and certain other Microsoft programs violated a Uniloc patent. After we obtained a favorable summary judgment that we did not infringe any of the claims of this patent, the court of appeals vacated the trial court decision and remanded the case for trial. In April 2009, the jury returned a $388 million verdict against us, including a finding of willful infringement. In September 2009, the district court judge overturned the jury verdict, ruling that the evidence did not support the jury’s findings either that Microsoft infringed the patent or was willful. Uniloc appealed, and in January 2011 the court of appeals reversed the district court’s finding of non-infringement (thus reinstating the jury verdict of infringement) but affirmed the district court’s ruling that Microsoft was not willful and affirmed the district court’s grant of a new trial on damages. In March 2012, the parties settled the case during trial by a confidential agreement.

Motorola Litigation

In October 2010, Microsoft filed patent infringement complaints against Motorola Mobility (“Motorola”) with the International Trade Commission (“ITC”) and in U.S. District Court in Seattle for infringement of nine Microsoft patents by Motorola’s Android devices. Since then, Microsoft and Motorola have filed additional claims against each other in the ITC, in federal district courts in Seattle, Wisconsin, Florida, and California, and in courts in Germany and the United Kingdom.

In April 2012, the European Union's competition office opened two antitrust investigations against Motorola to determine whether it has abused certain of its standard essential patents to distort competition in breach of European Union antitrust rules. The nature of the claims asserted and status of individual matters are summarized below.

International Trade Commission

- The hearing in Microsoft's ITC case against Motorola took place in August 2011 on seven of the nine patents originally asserted in the complaint. In December 2011, the administrative law judge ("ALJ") issued an initial determination that Motorola infringed one Microsoft patent, and recommended that the ITC issue a limited exclusion order against Motorola prohibiting importation of infringing Motorola Android devices. The ITC is reviewing various aspects of the ALJ's initial determination and a final ruling from the ITC is expected in May 2012.
- In November 2010, Motorola filed an action against Microsoft in the ITC alleging infringement of five Motorola patents by Xbox consoles and accessories and seeking an exclusion order to prohibit importation of the allegedly infringing Xbox products into the U.S. The hearing before the ALJ took place in January 2012. An initial determination from the ALJ is expected in April 2012, and a final ruling from the ITC is expected in August 2012.

U.S. District Court

- The Seattle District Court case filed in October 2010 by Microsoft as a companion to Microsoft's ITC case against Motorola has been stayed pending the outcome of Microsoft's ITC case.
- In November 2010, Microsoft sued Motorola for breach of contract in U.S. District Court in Seattle, alleging that Motorola breached its commitments to standards setting organizations to license to Microsoft on reasonable and non-discriminatory ("RAND") terms and conditions patents declared by Motorola to be essential to the implementation of the H.264 video standard and the 802.11 WiFi standard. In suits described below, Motorola or a Motorola affiliate subsequently sued Microsoft on those patents in U.S. District Courts, in the ITC, and in Germany. In February 2012, the Seattle District Court granted a partial summary judgment in favor of Microsoft ruling that (1) Motorola entered into binding contractual commitments with standards organizations committing to license its declared-essential patents on RAND terms and conditions; and (2) Microsoft is a third-party beneficiary of those commitments. Microsoft has renewed its motion for summary judgment in the breach of contract action. No trial date has been set in the breach of contract action. In April 2012, the court issued a temporary restraining order preventing Motorola from taking steps to enforce an injunction in Germany relating to the H.264 video patents.
- Cases filed by Motorola in Wisconsin, California, and Florida, with the exception of one currently stayed case in Wisconsin (a companion case to Motorola's ITC action), have been transferred at Microsoft's request to the U.S District Court in Seattle. Motorola and Microsoft both seek damages as well as injunctive relief. No trial dates have been set in any of the transferred cases.
  - In the transferred cases, Motorola asserts 15 patents are infringed by many Microsoft products including Windows Mobile 6.5 and Windows Phone 7, Windows Marketplace, Silverlight, Windows Vista and 7, Exchange Server 2003 and later, Exchange ActiveSync, Windows Live Messenger, Lync Server 2010, Outlook 2010, Office 365, SQL Server, Internet Explorer 9, Xbox, and Kinect.
  - In the Motorola action originally filed in California, Motorola asserts that Microsoft violated antitrust laws in connection with Microsoft's assertion of patents against Motorola that Microsoft has agreed to license to certain qualifying entities on RAND terms and conditions.
  - In counterclaims in the patent actions brought by Motorola, Microsoft asserts 14 patents are infringed by Motorola Android devices and certain Motorola digital video recorders.

Germany

- In July 2011, Motorola filed patent infringement actions in Germany against Microsoft and several Microsoft subsidiaries on three groups of patents.
  - Two of the patents are asserted by Motorola to be essential to implementation of the H.264 video standard, and Motorola alleges that H.264 capable products including Xbox 360, Windows 7, Media Player, and Internet Explorer infringe those patents. Motorola seeks damages and an injunction. A hearing was held in January 2012 and a decision is expected in April 2012. If the court rules in favor

of Motorola, an injunction could be issued immediately relating to all H.264 capable Microsoft products in Germany which Motorola could then take steps to enforce. Damages would be determined in later proceedings.

 - Motorola asserts one of the patents covers certain syncing functionality in the ActiveSync protocol employed by Windows Phone 7, Outlook Mobile, Hotmail Mobile, Exchange Online, Exchange Server, and Hotmail Server. Motorola seeks damages and an injunction. A decision is expected in May 2012. If the court rules in favor of Motorola, an injunction could be issued immediately relating to these products employing the ActiveSync protocol in Germany which Motorola could then take steps to enforce. Damages would be determined in later proceedings.
 - As noted above, in April 2012 the U.S. District Court in Seattle issued a temporary restraining order preventing Motorola from taking steps to enforce an injunction in Germany relating to the H.264 video patents at this time.

- In lawsuits Microsoft filed in Germany in September, October, and December 2011, Microsoft asserts Motorola Android devices infringe seven Microsoft patents. Microsoft seeks damages and an injunction. Court hearings are expected to continue until June 2012. Decisions are expected to begin issuing in these cases in May 2012. If the court rules in favor of Microsoft in a given case, an injunction could be issued immediately relating to the sale of these products in Germany which Microsoft could then take steps to enforce. Damages would be determined in later proceedings.

United Kingdom

- In December 2011, Microsoft filed an action against Motorola in the High Court of Justice, Chancery Division, Patents Court, in London, England, seeking to revoke the UK part of the European patent asserted by Motorola in Germany against the ActiveSync protocol. In February 2012, Motorola counterclaimed alleging infringement of the patent and seeking damages and an injunction. A trial is expected in December 2012.

Other Patent and Intellectual Property Claims

In addition to these cases, there are approximately 60 other patent infringement cases pending against Microsoft.

Other

We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

As of March 31, 2012, we had accrued aggregate liabilities of $351 million in other current liabilities and $268 million in other long-term liabilities for all of the contingent matters described in this note. While we intend to vigorously defend these matters, adverse outcomes that we estimate could reach approximately $510 million in aggregate beyond recorded amounts are reasonably possible. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our financial statements for the period in which the effects become reasonably estimable.

NOTE 16 STOCKHOLDERS' EQUITY

Share Repurchases

We repurchased the following shares of common stock during the periods presented:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Shares of common stock repurchased	**31**	30	**109**	381
Value of common stock repurchased	**$ 1,000**	$ 827	**$ 3,000**	$ 9,827

We repurchased all shares with cash resources. As of March 31, 2012, approximately $9.2 billion remained of our $40.0 billion repurchase program that we announced on September 22, 2008. The repurchase program expires September 30, 2013 but may be suspended or discontinued at any time without notice.

Dividends

Our Board of Directors declared the following dividends during the periods presented:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(in millions)	
Fiscal Year 2012				
September 20, 2011	**$ 0.20**	**November 17, 2011**	**$ 1,683**	**December 8, 2011**
December 14, 2011	**$ 0.20**	**February 16, 2012**	**$ 1,683**	**March 8, 2012**
March 13, 2012	**$ 0.20**	**May 17, 2012**	**$ 1,680**	**June 14, 2012**
Fiscal Year 2011				
September 21, 2010	$ 0.16	November 18, 2010	$ 1,363	December 9, 2010
December 15, 2010	$ 0.16	February 17, 2011	$ 1,349	March 10, 2011
March 14, 2011	$ 0.16	May 19, 2011	$ 1,350	June 9, 2011

The estimate of the amount to be paid as a result of the March 13, 2012 declaration was included in other current liabilities as of March 31, 2012.

NOTE 17 SEGMENT INFORMATION

In its operation of the business, management, including our chief operating decision maker, the Company's Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis not consistent with U.S. GAAP. The segment information within this note is reported on that basis. Our five segments are Windows & Windows Live Division; Server and Tools; Online Services Division; Microsoft Business Division; and Entertainment and Devices Division.

Due to the integrated structure of our business, certain revenue earned and costs incurred by one segment may benefit other segments. Revenue on certain contracts may be allocated among the segments based on the relative value of the underlying products and services. Costs that are identifiable are allocated to the segments that benefit to incent cross-collaboration among our segments so that one segment is not solely burdened by the cost of a mutually beneficial activity. Allocated costs may include those relating to development and marketing of products and services from which multiple segments benefit, or those costs relating to services performed by one segment on behalf of other segments. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated.

In addition, certain costs incurred at a corporate level that are identifiable and that benefit our segments are allocated to them. These allocated costs include costs of: field selling; employee benefits; shared facilities services; and customer service and support. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated. Certain other corporate-level activity is not allocated to our segments, including costs of: broad-based sales and marketing; product support services; human resources; legal; finance; information technology; corporate development and procurement activities; research and development; legal settlements and contingencies; and employee severance.

We have recast certain prior period amounts within this note to conform to the way we internally managed and monitored segment performance during the current fiscal year, including moving Forefront Protection for Office, an anti-malware solution, from Server and Tools to the Microsoft Business Division, as well as conforming management reporting and U.S. GAAP reporting for stock-based compensation.

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Segment revenue and operating income (loss) were as follows during the periods presented:

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Revenue				
Windows & Windows Live Division	**$ 4,606**	$ 4,395	**$ 14,147**	$ 14,088
Server and Tools	**4,574**	4,009	**13,600**	12,163
Online Services Division	**725**	687	**2,181**	1,979
Microsoft Business Division	**5,811**	5,343	**17,666**	16,406
Entertainment and Devices Division	**1,611**	1,937	**7,815**	7,443
Unallocated and other	**80**	57	**255**	497
Consolidated	**$ 17,407**	$ 16,428	**$ 55,664**	$ 52,576
Operating Income (Loss)				
Windows & Windows Live Division	**$ 2,933**	$ 2,740	**$ 8,985**	$ 9,109
Server and Tools	**1,744**	1,361	**5,358**	4,638
Online Services Division	**(478)**	(779)	**(1,446)**	(1,904)
Microsoft Business Division	**3,766**	3,326	**11,585**	10,660
Entertainment and Devices Division	**(232)**	221	**637**	1,292
Reconciling amounts	**(1,359)**	(1,160)	**(3,548)**	(2,805)
Consolidated	**$ 6,374**	$ 5,709	**$ 21,571**	$ 20,990

Reconciling amounts in the tables above and below include adjustments to conform our internal accounting policies to U.S. GAAP and corporate-level activity not specifically attributed to a segment. Significant internal accounting policies that differ from U.S. GAAP relate to revenue recognition, income statement classification, and depreciation.

Significant reconciling items were as follows:

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Corporate-level activity[(a)]	**$ (1,378)**	$ (1,182)	**$ (3,625)**	$ (3,145)
Revenue reconciling amounts	**6**	14	**59**	363
Other	**13**	8	**18**	(23)
Total	**$ (1,359)**	$ (1,160)	**$ (3,548)**	$ (2,805)

(a) *Corporate-level activity excludes revenue reconciling amounts presented separately in that line item.*

Assets are not allocated to segments for internal reporting presentations. A portion of amortization and depreciation is included with various other costs in an overhead allocation to each segment and it is impracticable for us to separately identify the amount of amortization and depreciation by segment that is included in the measure of segment profit or loss.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation
Redmond, Washington

We have reviewed the accompanying consolidated balance sheet of Microsoft Corporation and subsidiaries (the "Corporation") as of March 31, 2012, and the related consolidated statements of income, cash flows, and stockholders' equity for the three-month and nine-month periods ended March 31, 2012 and 2011. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Microsoft Corporation and subsidiaries as of June 30, 2011, and the related consolidated statements of income, cash flows, and stockholders' equity for the year then ended (not presented herein); and in our report dated July 28, 2011 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2011 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington

April 19, 2012

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note About Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, the following sections: "Management's Discussion and Analysis," and "Risk Factors." These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (Part II, Item 1A of this Form 10-Q). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

OVERVIEW

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Microsoft Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Annual Report on Form 10-K for the year ended June 30, 2011 and our financial statements and accompanying Notes to Financial Statements.

Microsoft is a technology leader focused on helping people and businesses throughout the world realize their full potential. We create technology that transforms the way people work, play, and communicate across a wide range of computing devices.

We generate revenue by developing, licensing, and supporting a wide range of software products and services, by designing and selling hardware, and by delivering relevant online advertising to a global customer audience. Our most significant expenses are related to compensating employees, designing, manufacturing, marketing and selling our products and services, and income taxes.

Industry Trends

Our industry is dynamic and highly competitive, with frequent changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies, or new ideas which can further transform the industry and our business. At Microsoft, we push the boundaries of what is possible through a broad set of research and technology innovations that seek to anticipate the changing demands of customers, industry trends, and competitive forces.

Key Opportunities and Investments

Based on our assessment of key technology trends and our broad focus on long-term research and development of new products and services, we see significant opportunities to drive future growth.

Smart connected devices

The price per unit of processing, storage, and networks continues to decline while at the same time devices increase in capability. As a result, the capabilities and accessibility of PCs, mobile, and other devices powered by rich software platforms and applications continue to grow. At the same time, the information and services people use increasingly span multiple devices. User experiences will be transformed by the adoption of cloud computing when brought together with the richness of smart, connected devices. Microsoft is delivering experiences that seamlessly connect PCs and mobile and other devices through the cloud. We are devoting significant resources to consumer cloud offerings like Bing, Windows Live, and Xbox LIVE. Our software and hardware platform investments can be seen in products like Kinect, Windows, Windows Azure, Windows Phone, Windows Server, and Xbox.

Cloud computing transforming the data center and information technology

Cloud-based solutions provide customers with software, services and content over the Internet by way of shared computing resources located in centralized data centers. Computing is undergoing a long-term shift from client/server to the cloud, a shift similar in importance and impact to the transition from mainframe to client/server. The shift to the cloud is driven by three important economies of scale: larger data centers can deploy computational resources at significantly lower cost per unit than smaller ones; larger data centers can coordinate and aggregate diverse customer, geographic, and application demand patterns which can improve the utilization of computing, storage, and network resources; and multi-tenancy lowers application maintenance labor costs for large public clouds. As a result of the improved economics, the cloud offers unique levels of elasticity and agility that will enable new solutions and applications. For businesses of all sizes, the cloud creates the opportunity to focus more on innovation while leaving non-differentiating activities to reliable and cost-effective providers. For many businesses, the first step in achieving cloud economics is the adoption of virtualization in their data center. We are devoting significant resources to developing cloud infrastructure, platforms, and applications including offerings such as Microsoft Dynamics Online, Microsoft SQL Azure, Office 365, Windows Azure, Windows Intune, and Windows Server.

Entertainment

The evolution of hardware, software, services, and the cloud are enhancing the delivery and quality of unified entertainment experiences across many devices. These rich media experiences include games, movies, music, television, and social interactions with family, friends, and colleagues. At Microsoft, our approach is to simplify and increase the accessibility of these entertainment experiences to broaden market penetration of our software and services. We invest significant resources to develop or partner to develop hardware, software, and content that is used in products and services such as Windows Phone, Xbox, Xbox LIVE, and Skype.

Search

Over the last two decades, web content and social connections have increased dramatically as people spend more time online, while discoverability and accessibility has been transforming from direct navigation and document links. There is significant opportunity to deliver differentiated products that helps users make better decisions and complete tasks more simply when using PC, mobile, and other devices. Our approach is to use machine learning to try to understand user intent, and differentiate our product by focusing on the integration of visual, social, and other elements which simplifies people's interaction with the Internet. We invest significant resources in Bing, SharePoint, Windows, Windows Phone, and Xbox LIVE.

Communications and productivity

Personal and business productivity has been transformed by the ubiquity of computing and software tools. Over the last decade, Microsoft redefined software productivity beyond the rich Office client on the PC. Productivity scenarios now encompass unified communications, business intelligence, collaboration, content management, and relationship management, which are increasingly powered by server-side applications. These server applications can be hosted by the customer, a partner, or by Microsoft in the cloud. There are significant opportunities to provide productivity and communication scenarios across PCs, mobile devices, and other devices that connect to services. We invest significant resources in Dynamics, Exchange, Lync, Skype, Office, Office 365, SharePoint, Windows Live, and Windows Phone.

Economic Conditions, Challenges and Risks

As discussed above, our industry is dynamic and highly competitive. We must anticipate changes in technology and business models. Our model for growth is based on our ability to initiate and embrace disruptive technology trends, to enter new markets, both in terms of geographies and product areas, and to drive broad adoption of the products and services we develop and market.

At Microsoft, we prioritize our investments among the highest long-term growth opportunities. These investments require significant resources and are multi-year in nature. The products and services we bring to market can be built internally, brought to market as part of a partnership or alliance, or through acquisition.

Our success is highly dependent on our ability to attract and retain qualified employees. We rely on hiring from a mix of university and industry talent worldwide. Microsoft competes for talented individuals worldwide by offering broad customer reach, scale in resources, and competitive compensation.

Demand for our software, services, and hardware has a strong correlation to global macroeconomic factors. The current macroeconomic factors remain dynamic. See a discussion of these factors and other risks under Risk Factors (Part II, Item 1A. of this Form 10-Q).

Seasonality

Our revenue historically has fluctuated quarterly and has generally been the highest in the second quarter of our fiscal year due to corporate calendar year-end spending trends in our major markets and holiday season spending by consumers. Our Entertainment and Devices Division is particularly seasonal as its products are aimed at the consumer market and are in highest demand during the holiday shopping season. Typically, the Entertainment and Devices Division has generated approximately 40% of its yearly segment revenue in our second fiscal quarter. In addition, quarterly revenue may be impacted by the deferral of revenue. See the discussions below regarding sales of earlier versions of the Microsoft Office system with a guarantee to be upgraded to the newest version of the Microsoft Office system at minimal or no cost (the "Office Deferral").

RESULTS OF OPERATIONS

Summary

(In millions, except percentages and per share amounts)	Three Months Ended March 31,		Percentage Change	Nine Months Ended March 31,		Percentage Change
	2012	2011		2012	2011	
Revenue	**$ 17,407**	$ 16,428	6%	**$ 55,664**	$ 52,576	6%
Operating income	**$ 6,374**	$ 5,709	12%	**$ 21,571**	$ 20,990	3%
Diluted earnings per share	**$ 0.60**	$ 0.61	(2)%	**$ 2.05**	$ 2.01	2%

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Revenue increased primarily due to strong sales of Server and Tools products and services and the 2010 Microsoft Office system, offset in part by a decline in Xbox 360 entertainment platform sales. Revenue for the three months ended March 31, 2012 also included Skype revenue.

Operating income increased 12%, primarily reflecting an increase in revenue, offset in part by higher research and development expenses. Research and development expenses increased $248 million or 11%, due mainly to higher headcount-related expenses. Headcount-related expenses increased across the company reflecting a 4% increase in headcount from March 31, 2011 and changes in our employee compensation program.

Diluted earnings per share were $0.60. Prior year net income and diluted earnings per share reflected a partial settlement with the U.S. Internal Revenue Service ("I.R.S.") and higher other income. The partial settlement with the I.R.S. added $461 million to prior year net income and $0.05 to diluted earnings per share.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

Revenue increased primarily due to strong sales of Server and Tools products and services and the 2010 Microsoft Office system. Revenue for the nine months ended March 31, 2012 also included Skype revenue from the date of acquisition.

Operating income increased reflecting increased revenue, offset in part by higher operating expenses. Key changes in operating expenses were:

- Cost of revenue increased $1.5 billion or 13%, reflecting higher costs associated with providing Server and Tools products and services, higher Xbox royalty costs, and changes in the mix of products and services sold.
- Research and development expenses increased $567 million or 9%, due mainly to higher headcount-related expenses.
- General and administrative expenses increased $390 million or 13%, due mainly to higher headcount-related expenses and Puerto Rican excise taxes.

Headcount-related expenses increased across the company reflecting a 4% increase in headcount from March 31, 2011 and changes in our employee compensation program.

Diluted earnings per share were $2.05. Prior year net income and diluted earnings per share reflected a partial settlement with the I.R.S. and higher other income. The partial settlement with the I.R.S. added $461 million to prior year net income and $0.05 to diluted earnings per share.

SEGMENT PRODUCT REVENUE/OPERATING INCOME (LOSS)

The revenue and operating income (loss) amounts in this section are presented on a basis consistent with accounting principles generally accepted in the U.S. ("U.S. GAAP") and include certain reconciling items attributable to each of the segments. Segment information appearing in Note 17 – Segment Information of the Notes to Financial Statements (Part I, Item I of this Form 10-Q) is presented on a basis consistent with our current internal management reporting. Certain corporate-level activity has been excluded from segment operating results and is analyzed separately. We have recast certain prior period amounts within this MD&A to conform to the way we internally managed and monitored segment performance during the current fiscal year, including moving Forefront Protection for Office, an anti-malware solution, from Server and Tools to the Microsoft Business Division.

Windows & Windows Live Division

(In millions, except percentages)	Three Months Ended March 31,		Percentage Change	Nine Months Ended March 31,		Percentage Change
	2012	**2011**		**2012**	**2011**	
Revenue	**$ 4,624**	$ 4,447	4%	**$ 14,228**	$ 14,290	0%
Operating income	**$ 2,952**	$ 2,792	6%	**$ 9,063**	$ 9,303	(3)%

Windows & Windows Live Division ("Windows Division") develops and markets PC operating systems, related software and online services, and PC hardware products. This collection of software, hardware, and services is designed to simplify everyday tasks through efficient browsing capabilities and seamless operations across the user's hardware and software. Windows Division offerings consist of multiple editions of the Windows operating system, software and services through Windows Live, and Microsoft PC hardware products.

Windows Division revenue is largely correlated to the PC market worldwide, as approximately 75% of total Windows Division revenue comes from Windows operating system software purchased by original equipment manufacturers ("OEMs") which they pre-install on equipment they sell. The remaining approximately 25% of Windows Division revenue is generated by commercial and retail sales of Windows and PC hardware products and online advertising from Windows Live.

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Windows Division revenue reflected relative performance in PC market segments. We estimate that sales of PCs to businesses grew approximately 8% and sales of PCs to consumers were flat. Excluding a decline in sales of netbooks, we estimate that sales of PCs to consumers grew approximately 6%. Taken together, the total PC market increased an estimated 2% to 4%. Windows Division revenue was positively impacted by a higher rate of Windows licensed on PCs shipped and growth in sales to businesses.

Windows Division operating income increased primarily due to revenue growth, offset in part by higher research and development expenses, which grew due mainly to an increase in headcount-related costs and product development costs associated with the next version of the Windows operating system.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

Windows Division revenue reflected relative performance in PC market segments. We estimate that sales of PCs to businesses grew approximately 5% and sales of PCs to consumers decreased 1%. Excluding a decline in sales of netbooks, we estimate that sales of PCs to consumers grew approximately 6%. Taken together, the total PC market increased an estimated 0% to 2%. Windows Division revenue was negatively impacted by higher growth in emerging markets, where average selling prices are lower, relative to developed markets, partially offset by a higher rate of Windows licensed on PCs shipped and growth in sales to businesses.

Windows Division operating income decreased due primarily to higher research and development expenses associated with the next version of the Windows operating system.

Server and Tools

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Revenue	**$ 4,572**	$ 4,007	14%	**$ 13,594**	$ 12,156	12%
Operating income	**$ 1,738**	$ 1,352	29%	**$ 5,336**	$ 4,604	16%

Server and Tools develops and markets technology and related services that enable information technology professionals and their systems to be more productive and efficient. Server and Tools product and service offerings include Windows Server, Microsoft SQL Server, Windows Azure, Visual Studio, System Center products, Windows Embedded device platforms, and Enterprise Services. Enterprise Services comprise Premier product support services and Microsoft Consulting Services. We also offer developer tools, training, and certification. Approximately 50% of Server and Tools revenue comes primarily from multi-year volume licensing agreements, approximately 30% is purchased through transactional volume licensing programs, retail packaged product and licenses sold to OEMs, and the remainder comes from Enterprise Services.

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Server and Tools revenue increased in both product sales and Enterprise Services. Product revenue increased $396 million or 12%, driven primarily by growth in SQL Server, Windows Server, and System Center, reflecting continued adoption of Windows platform applications. Enterprise Services revenue grew in both Premier product support and consulting services.

Server and Tools operating income increased primarily due to revenue growth, offset in part by higher costs of providing products and services.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

Server and Tools revenue increased in both product sales and Enterprise Services. Product revenue increased $980 million or 10%, driven primarily by growth in SQL Server, Windows Server, and System Center, reflecting continued adoption of Windows platform applications. Enterprise Services revenue grew in both Premier product support and consulting services.

Server and Tools operating income increased primarily due to revenue growth, offset in part by higher costs of providing products and services.

Online Services Division

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Revenue	**$ 707**	$ 667	6%	**$ 2,132**	$ 1,927	11%
Operating loss	**$ (479)**	$ (776)	38%	**$ (1,449)**	$ (1,912)	24%

Online Services Division ("OSD") develops and markets information and content designed to help people simplify tasks and make more informed decisions online, and that help advertisers connect with audiences. OSD offerings include Bing, MSN, adCenter, and advertiser tools. Bing and MSN generate revenue through the sale of search and display advertising. Search and display advertising accounts for nearly all of OSD's annual revenue.

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Online advertising revenue grew $51 million or 9% to $639 million, reflecting continued growth in search advertising revenue, offset in part by decreased display advertising revenue. As of March 31, 2012, according to third-party sources, Bing organic U.S. market share grew over 10% from March 31, 2011 to approximately 15%. Bing-powered U.S. market share, including Yahoo! properties was approximately 26% at both March 31, 2012 and 2011.

OSD operating loss decreased due to higher revenue and lower cost of revenue and sales and marketing expenses.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

Online advertising revenue grew $232 million or 14% to $1.9 billion, reflecting continued growth in search advertising revenue, offset in part by decreased display advertising revenue. As of March 31, 2012, according to third-party sources, Bing organic U.S. market share grew over 10% from March 31, 2011 to approximately 15%. Bing-powered U.S. market share, including Yahoo! properties was approximately 26% at both March 31, 2012 and 2011.

OSD operating loss decreased due primarily to higher revenue and lower sales and marketing expenses.

Microsoft Business Division

(In millions, except percentages)	Three Months Ended March 31,		Percentage Change	Nine Months Ended March 31,		Percentage Change
	2012	**2011**		**2012**	**2011**	
Revenue	**$ 5,814**	$ 5,329	9%	**$ 17,700**	$ 16,641	6%
Operating income	**$ 3,770**	$ 3,313	14%	**$ 11,619**	$ 10,896	7%

Microsoft Business Division ("MBD") develops and markets software and online services designed to increase personal, team, and organization productivity. MBD offerings include the Microsoft Office system (comprising mainly Office, SharePoint, Exchange, Lync, and Office 365), which generates over 90% of MBD revenue, and Microsoft Dynamics business solutions. We evaluate MBD results based upon the nature of the end user in two primary parts: business revenue, which includes Microsoft Office system revenue generated through volume licensing agreements and Microsoft Dynamics revenue; and consumer revenue, which includes revenue from retail packaged product sales and OEM revenue.

Three months ended March 31, 2012 compared with three months ended March 31, 2011

MBD revenue increased primarily reflecting sales of the 2010 Microsoft Office system. Business revenue increased $469 million or 11%, primarily reflecting growth in multi-year volume licensing revenue, licensing of the 2010 Microsoft Office system to transactional business customers, and an 11% increase in Microsoft Dynamics revenue. Consumer revenue increased $16 million or 2% due mainly to increased sales of the 2010 Microsoft Office system.

MBD revenue for the three months ended March 31, 2012 included a favorable foreign currency impact of $121 million.

MBD operating income increased primarily due to revenue growth. An increase in cost of revenue, which resulted primarily from higher online operation and support costs, was nearly offset by a decrease in sales and marketing expenses, which resulted primarily from lower headcount-related costs.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

MBD revenue increased primarily reflecting sales of the 2010 Microsoft Office system. Business revenue increased $1.2 billion or 9%, primarily reflecting growth in multi-year volume licensing revenue, licensing of the 2010 Microsoft Office system to transactional business customers, and a 13% increase in Microsoft Dynamics revenue. Consumer revenue decreased $157 million or 4% due to the recognition of $254 million of revenue in the prior year associated with the Office Deferral. Excluding the impact associated with the Office Deferral, consumer revenue increased $97 million or 3% driven by increased sales of the 2010 Microsoft Office system.

MBD revenue for the nine months ended March 31, 2012 included a favorable foreign currency impact of $458 million.

MBD operating income increased primarily due to revenue growth, offset in part by higher operating expenses. Cost of revenue increased primarily due to higher online operation and support costs. Research and development expenses increased due mainly to an increase in headcount-related costs.

Entertainment and Devices Division

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Revenue	**$ 1,616**	$ 1,935	(16)%	**$ 7,814**	$ 7,428	5%
Operating income	**$ (229)**	$ 210	*	**$ 627**	$ 1,244	(50)%

* *Not meaningful*

Entertainment and Devices Division ("EDD") develops and markets products and services designed to entertain and connect people. EDD offerings include the Xbox 360 entertainment platform (which includes the Xbox 360 gaming and entertainment console, Kinect for Xbox 360, Xbox 360 video games, Xbox LIVE, and Xbox 360 accessories), Mediaroom (our Internet protocol television software), Skype, and Windows Phone, including related patent licensing revenue. In November 2010, we released Kinect for Xbox 360. We acquired Skype on October 13, 2011, and its results of operations from this date are reflected in our results discussed below.

Three months ended March 31, 2012 compared with three months ended March 31, 2011

EDD revenue decreased primarily reflecting lower Xbox 360 platform revenue, offset in part by Skype revenue and Windows Phone software license revenue from Nokia. Xbox 360 platform revenue decreased $584 million or 33%, due mainly to decreased volumes of Xbox 360 consoles and standalone Kinect sensors sold, offset in part by higher Xbox LIVE revenue. We shipped 1.4 million Xbox 360 consoles during the third quarter of fiscal year 2012, compared with 2.7 million Xbox 360 consoles during the third quarter of fiscal year 2011.

EDD operating income decreased reflecting lower revenue, payments made to Nokia related to joint strategic initiatives, and higher other operating expenses. Research and development expenses increased $100 million or 35%, and sales and marketing expenses increased $79 million or 50%, primarily reflecting higher headcount-related expenses. Cost of revenue decreased $80 million or 6% primarily due to lower volumes of Xbox 360 consoles and standalone Kinect sensors sold, offset in part by payments made to Nokia.

Nine months ended March 31, 2012 compared with nine months ended March 31, 2011

EDD revenue increased primarily reflecting Skype revenue and Windows Phone software license revenue from Nokia, offset in part by lower Xbox 360 platform revenue. Xbox 360 platform revenue decreased $154 million or 2%, due mainly to decreased volumes of standalone Kinect sensors sold and lower video game revenue, offset in part by higher Xbox LIVE revenue. We shipped 11.9 million Xbox 360 consoles during the first nine months of fiscal year 2012, compared with 11.9 million Xbox 360 consoles during the first nine months of fiscal year 2011. Video game revenue decreased due to strong sales of Halo Reach in the prior year.

EDD operating income decreased reflecting higher operating expenses, including payments made to Nokia related to joint strategic initiatives, offset in part by revenue growth. Cost of revenue grew $556 million or 12% primarily due to payments made to Nokia and changes in the mix of products and services sold. Research and development expenses increased $228 million or 26%, and sales and marketing expenses increased $179 million or 26%, primarily reflecting higher headcount-related expenses and the inclusion of Skype expenses.

Corporate-Level Activity

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Corporate-level activity	**$ (1,378)**	$ (1,182)	(17)%	**$ (3,625)**	$ (3,145)	(15)%

Certain corporate-level activity is not allocated to our segments, including costs of: broad-based sales and marketing; product support services; human resources; legal; finance; information technology; corporate development and procurement activities; research and development; and legal settlements and contingencies.

For the three months ended March 31, 2012, corporate-level expenses increased due mainly to higher headcount-related expenses, offset in part by decreased legal costs. For the nine months ended March 31, 2012, corporate-level expenses increased due mainly to Puerto Rican excise taxes and higher headcount-related expenses.

OPERATING EXPENSES

Cost of Revenue

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Cost of revenue	**$ 3,952**	$ 3,897	1%	**$ 13,367**	$ 11,869	13%
As a percent of revenue	**23%**	24%	(1)ppt	**24%**	23%	1ppt

Cost of revenue includes: manufacturing and distribution costs for products sold and programs licensed; operating costs related to product support service centers and product distribution centers; costs incurred to include software on PCs sold by OEMs, to drive traffic to our Web sites and to acquire online advertising space ("traffic acquisition costs"); costs incurred to support and maintain Internet-based products and services including royalties; warranty costs; inventory valuation adjustments; costs associated with the delivery of consulting services; and the amortization of capitalized research and development costs.

For the three months ended March 31, 2012, cost of revenue increased slightly reflecting changes in the mix of products and services sold. For the nine months ended March 31, 2012, cost of revenue increased reflecting higher headcount-related costs and changes in the mix of products and services sold. Headcount-related expenses increased 23% and 22% for the three and nine months ended March 31, 2012, respectively, primarily related to increased Enterprise Services headcount.

Research and Development

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Research and development	**$ 2,517**	$ 2,269	11%	**$ 7,217**	$ 6,650	9%
As a percent of revenue	**14%**	14%	0ppt	**13%**	13%	0ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content.

Research and development expenses increased, primarily reflecting a 14% and 11% increase in headcount-related expenses for the three and nine months ended March 31, 2012, respectively.

Sales and Marketing

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
Sales and marketing	**$ 3,414**	$ 3,393	1%	**$ 10,076**	$ 10,024	1%
As a percent of revenue	**20%**	21%	(1)ppt	**18%**	19%	(1)ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel and the costs of advertising, promotions, trade shows, seminars, and other programs.

Sales and marketing expenses increased slightly, primarily reflecting an 8% and 7% increase in headcount-related expenses for the three and nine months ended March 31, 2012, respectively, offset in part by decreased marketing spend.

General and Administrative

(In millions, except percentages)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Percentage Change	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011	Percentage Change
General and administrative	**$ 1,150**	$ 1,160	(1)%	**$ 3,433**	$ 3,043	13%
As a percent of revenue	**7%**	7%	0ppt	**6%**	6%	0ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, severance expense, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

For the three months ended March 31, 2012, general and administrative expenses decreased slightly, primarily due to decreased legal costs, offset in part by higher headcount-related expenses. For the nine months ended March 31, 2012, general and administrative expenses increased, primarily due to higher headcount-related expenses and Puerto Rican excise taxes. Headcount-related expenses increased 16% and 13% for the three and nine months ended March 31, 2012, respectively.

OTHER INCOME (EXPENSE) AND INCOME TAXES

Other Income (Expense)

The components of other income (expense) were as follows:

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Dividends and interest income	**$ 180**	$ 216	**$ 573**	$ 631
Interest expense	**(95)**	(84)	**(284)**	(201)
Net recognized gains on investments	**34**	187	**352**	339
Net gains (losses) on derivatives	**(102)**	(65)	**(278)**	38
Net gains (losses) on foreign currency remeasurements	**(8)**	55	**(52)**	(14)
Other	**(20)**	7	**26**	(31)
Total	**$ (11)**	$ 316	**$ 337**	$ 762

We use derivative instruments to manage risks related to foreign currencies, equity prices, interest rates, and credit; to enhance investment returns; and to facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedges are recognized in other income (expense). These are generally offset by unrealized gains and losses in the underlying securities in the investment portfolio and are recorded as a component of other comprehensive income.

Dividends and interest income decreased due to lower yields on our fixed-income investments, offset in part by higher average portfolio investment balances. Interest expense increased due to our increased issuance of debt in the prior year. Net recognized gains on investments decreased for the three months ended March 31, 2012 due primarily to lower net gains on sales of equity securities and higher other-than-temporary impairments. Net recognized gains on investments increased slightly for the nine months ended March 31, 2012 as higher net gains on sales of equity and fixed-income securities were offset by higher other-than-temporary impairments. Other-than-temporary impairments were $82 million and $234 million during the three and nine months ended March 31, 2012, respectively, compared to $15 million and $42 million during the three and nine months ended March 31, 2011, respectively. Net losses on derivatives increased for the three months ended March 31, 2012 due primarily to losses on commodity derivatives in the current period as compared to gains in the comparable period. Net losses on derivatives also increased for the nine months ended March 31, 2012 due primarily to losses on commodity and equity derivatives in the current period as compared to gains in the comparable period. Changes in foreign currency remeasurements were primarily due to currency movements net of our hedging activities.

Income Taxes

Our effective tax rates were approximately 20% and 13% for the three months ended March 31, 2012 and 2011, respectively, and 20% and 21% for the nine months ended March 31, 2012 and 2011, respectively. Our effective tax rate was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions resulting from producing and distributing our products and services through our foreign regional operations centers in Ireland, Singapore, and Puerto Rico, which are subject to lower income tax rates. In addition, there was a settlement of a portion of an I.R.S. audit of tax years 2004 to 2006, which reduced our income tax expense for the quarter ended March 31, 2011 by $461 million.

Changes in the mix of income before income taxes between the U.S. and foreign countries resulted primarily from changes in the geographic distribution of and changes in consumer demand for our products and services. As discussed above, Windows Division operating income declined $240 million for the nine months ended March 31, 2012, while MBD and Server and Tools operating income increased $723 million and $732 million, respectively, during this same period. We supply Windows, our primary Windows Division product, to customers through our U.S. regional operating center, while we supply the Microsoft Office System, our primary MBD product, and our Server and Tools products to customers through our foreign regional operations centers.

Tax contingencies and other tax liabilities were $7.9 billion and $7.4 billion as of March 31, 2012 and June 30, 2011, respectively, and are included in other long-term liabilities. While we settled a portion of the I.R.S. audit for tax years 2004 to 2006 during the third quarter of fiscal year 2011, we remain under audit for these years. In February 2012, the I.R.S. withdrew its 2011 Revenue Agents Report and reopened the audit phase of the examination. As of March 31, 2012, the primary unresolved issue relates to transfer pricing which could have a significant impact on our financial statements if not resolved favorably. We believe our reserves are adequate. We do not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months, as we do not believe the remaining open issues will be resolved within the next 12 months. We also continue to be subject to examination by the I.R.S. for tax years 2007 to 2011.

FINANCIAL CONDITION

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and short-term investments totaled $59.5 billion as of March 31, 2012, compared with $52.8 billion as of June 30, 2011. Equity and other investments were $9.1 billion as of March 31, 2012 compared to $10.9 billion as of June 30, 2011. Our short-term investments are primarily to facilitate liquidity and for capital preservation. They consist predominantly of highly liquid investment grade fixed-income securities, diversified among industries and individual issuers. The investments are predominantly U.S. dollar-denominated securities, but also include foreign currency-denominated securities in order to diversify risk. Our fixed-income investments are exposed to interest rate risk and credit risk. The credit risk and average maturity of our fixed-income portfolio are managed to achieve economic returns that correlate to certain fixed-income indices. The settlement risk related to these investments is insignificant given that the short-term investments held are primarily highly liquid investment-grade fixed-income securities. While we own certain mortgage-backed and asset-backed fixed-income securities, our portfolio as of March 31, 2012 does not contain direct exposure to subprime mortgages or structured vehicles that derive their value from subprime collateral. The majority of our mortgage-backed securities are collateralized by prime residential mortgages and carry a 100% principal and interest guarantee, primarily from Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association.

We routinely monitor our financial exposure to both sovereign and non-sovereign borrowers and counterparties. Our gross exposures to our customers and investments in Portugal, Italy, Ireland, Greece, and Spain are individually and collectively not material.

Of the cash, cash equivalents, and short-term investments at March 31, 2012, approximately $50 billion was held by our foreign subsidiaries and were subject to material repatriation tax effects. The amount of cash and investments held by foreign subsidiaries subject to other restrictions on the free flow of funds (primarily currency and other local regulatory) was approximately $586 million. As of March 31, 2012, approximately 77% of the short-term investments held by our foreign subsidiaries were invested in U.S. government and agency securities, approximately 10% were invested in corporate notes and bonds of U.S. companies, and 4% were invested in U.S. mortgage-backed securities, all of which are denominated in U.S. dollars.

Securities lending

We lend certain fixed-income and equity securities to increase investment returns. The loaned securities continue to be carried as investments on our balance sheet. Cash and/or security interests are received as collateral for the loaned securities with the amount determined based upon the underlying security lent and the creditworthiness of the borrower. Cash received is recorded as an asset with a corresponding liability. Our securities lending payable balance was $1.2 billion as of March 31, 2012. Our average and maximum securities lending payable balances for the three months ended March 31, 2012 were $1.3 billion and $1.4 billion, respectively. Our average and maximum securities lending payable balances for the nine months ended March 31, 2012 were $1.2 billion and $1.4 billion, respectively. Intra-quarter variances in the amount of securities loaned are mainly due to fluctuations in the demand for the securities.

Valuation

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine the fair value of our financial instruments. This pricing methodology applies to our Level 1 investments, such as exchange-traded mutual funds, domestic and international equities, and U.S. treasuries. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. This pricing methodology applies to our Level 2 investments such as corporate notes and bonds, foreign government bonds, mortgage-backed securities, and agency securities. Level 3 investments are valued using internally developed models with unobservable inputs. Assets and liabilities measured using unobservable inputs are an immaterial portion of our portfolio.

A majority of our investments are priced by pricing vendors and are generally Level 1 or Level 2 investments as these vendors either provide a quoted market price in an active market or use observable inputs for their pricing without applying significant adjustments. Broker pricing is used mainly when a quoted price is not available, the investment is not priced by our pricing vendors, or when a broker price is more reflective of fair values in the market in which the investment trades. Our broker-priced investments are generally labeled as Level 2 investments because the broker prices these investments based on similar assets without applying significant adjustments. In addition, all of our broker-priced investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments. Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include model validation, review of key model inputs, analysis of period-over-period fluctuations, and independent recalculation of prices where appropriate.

Cash Flows

Cash flows from operations increased $2.9 billion to $23.9 billion for the nine months ended March 31, 2012 due mainly to increased revenue and cash collections. Cash used in financing increased $1.0 billion to $7.0 billion due mainly to a $6.0 billion net decrease in proceeds from issuances of debt and an $877 million increase in dividends paid, offset in part by a $6.3 billion decrease in cash used for common stock repurchases. Cash used in investing increased $6.5 billion to $20.1 billion due mainly to a $9.5 billion increase in acquisitions of businesses and purchases of intangible assets and a $1.1 billion decrease in cash from securities lending activities, partially offset by a $4.1 billion increase in cash provided by net purchases, maturities, and sales of investments.

Debt

We issued debt in prior periods to take advantage of favorable pricing and liquidity in the debt markets, reflecting our credit rating and the low interest rate environment. The proceeds of these issuances were used to partially fund discretionary business acquisitions and share repurchases.

As of March 31, 2012, the total carrying value and estimated fair value of our long-term debt, including convertible debt, were $11.9 billion and $13.0 billion, respectively. This is compared to a carrying value and estimated fair value of $11.9 billion and $12.1 billion, respectively, as of June 30, 2011. The estimated fair value is based on Level 2 inputs.

The components of long-term debt, the associated interest rates, and the semi-annual interest record and payment dates were as follows as of March 31, 2012:

Due Date	Face Value	Stated Interest Rate	Effective Interest Rate	Interest Record Date	Interest Pay Date	Interest Record Date	Interest Pay Date
	(In millions)						
Notes							
September 27, 2013	$ 1,000	0.875%	1.000%	March 15	March 27	September 15	September 27
June 1, 2014	2,000	2.950%	3.049%	May 15	June 1	November 15	December 1
September 25, 2015	1,750	1.625%	1.795%	March 15	March 25	September 15	September 25
February 8, 2016	750	2.500%	2.642%	February 1	February 8	August 1	August 8
June 1, 2019	1,000	4.200%	4.379%	May 15	June 1	November 15	December 1
October 1, 2020	1,000	3.000%	3.137%	March 15	April 1	September 15	October 1
February 8, 2021	500	4.000%	4.082%	February 1	February 8	August 1	August 8
June 1, 2039	750	5.200%	5.240%	May 15	June 1	November 15	December 1
October 1, 2040	1,000	4.500%	4.567%	March 15	April 1	September 15	October 1
February 8, 2041	1,000	5.300%	5.361%	February 1	February 8	August 1	August 8
Total	10,750						
Convertible Debt							
June 15, 2013	1,250	0.000%	1.849%				
Total unamortized discount	(62)						
Total	$ 11,938						

Notes

The Notes are senior unsecured obligations and rank equally with our other unsecured and unsubordinated debt outstanding.

Convertible Debt

In June 2010, we issued $1.25 billion of zero coupon convertible unsecured debt due on June 15, 2013 in a private placement offering. Proceeds from the offering were $1.24 billion, net of fees and expenses, which were capitalized. Each $1,000 principal amount of notes is convertible into 29.94 shares of Microsoft common stock at a conversion price of $33.40 per share. As of March 31, 2012, the net carrying amount of our convertible debt was $1.2 billion and the unamortized discount was $24 million.

Prior to March 15, 2013, the notes will be convertible, only in certain circumstances, into cash and, if applicable, cash, shares of Microsoft's common stock, or a combination thereof, at our election. On or after March 15, 2013, the notes will be convertible at any time. Upon conversion, we will pay cash up to the aggregate principal amount of the notes and pay or deliver cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

Because the convertible debt may be wholly or partially settled in cash, we are required to separately account for the liability and equity components of the notes in a manner that reflects our nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The net proceeds of $1.24 billion were allocated between debt for $1.18 billion and stockholders' equity for $58 million with the portion in stockholders' equity representing the fair value of the option to convert the debt.

In connection with the issuance of the notes, we entered into capped call transactions with certain option counterparties who are initial purchasers of the notes or their affiliates. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the notes. Under the capped call transactions, we purchased from the option counterparties capped call options that in the aggregate relate to the total number of shares of our common stock underlying the notes, with a strike price equal to the conversion price of the notes and with a cap price equal to $37.16. The purchased capped calls were valued at $40 million and recorded to stockholders' equity.

Unearned Revenue

Unearned revenue at March 31, 2012 comprised mainly unearned revenue from volume licensing programs. Unearned revenue from volume licensing programs represents customer billings for multi-year licensing arrangements paid for either at inception of the agreement or annually at the beginning of each billing coverage period and accounted for as subscriptions with revenue recognized ratably over the billing coverage period. Unearned revenue at March 31, 2012 also included payments for: post-delivery support and consulting services to be performed in the future; Xbox LIVE subscriptions and prepaid points; Microsoft Dynamics business solutions products; Skype prepaid credit and subscriptions; OEM minimum commitments; unspecified upgrades/enhancements of Windows Phone and of Microsoft Internet Explorer on a when-and-if-available basis for Windows XP; and other offerings for which we have been paid in advance and earn the revenue when we provide the service or software, or otherwise meet the revenue recognition criteria.

The following table outlines the expected future recognition of unearned revenue as of March 31, 2012:

(In millions)

Three Months Ending,	
June 30, 2012	$ 6,217
September 30, 2012	3,921
December 31, 2012	2,726
March 31, 2013	1,065
Thereafter	1,262
Total	$ 15,191

Share Repurchases

During the three and nine months ended March 31, 2012, we repurchased approximately 31 million and 109 million shares of Microsoft common stock for $1.0 billion and $3.0 billion, respectively, under the repurchase plan we announced on September 22, 2008. All repurchases were made using cash resources. As of March 31, 2012, approximately $9.2 billion remained of the $40.0 billion approved repurchase amount. The repurchase program expires September 30, 2013 but may be suspended or discontinued at any time without notice.

Dividends

Our Board of Directors declared the following dividends during the periods presented:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(in millions)	
Fiscal Year 2012				
September 20, 2011	**$ 0.20**	**November 17, 2011**	**$ 1,683**	**December 8, 2011**
December 14, 2011	**$ 0.20**	**February 16, 2012**	**$ 1,683**	**March 8, 2012**
March 13, 2012	**$ 0.20**	**May 17, 2012**	**$ 1,680**	**June 14, 2012**
Fiscal Year 2011				
September 21, 2010	$ 0.16	November 18, 2010	$ 1,363	December 9, 2010
December 15, 2010	$ 0.16	February 17, 2011	$ 1,349	March 10, 2011
March 14, 2011	$ 0.16	May 19, 2011	$ 1,350	June 9, 2011

Off-Balance Sheet Arrangements

We provide indemnifications of varying scope and size to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products and certain other matters. In evaluating estimated losses on these indemnifications, we consider factors such as the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of loss. To date, we have not encountered significant costs as a result of these obligations and have not accrued in our financial statements any liabilities related to these indemnifications.

Other Planned Uses of Capital

We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology. Additions to property and equipment will continue, including new facilities, data centers, and computer systems for research and development, sales and marketing, support, and administrative staff. We have operating leases for most U.S. and international sales and support offices and certain equipment. We have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of capital resources.

Definitive Agreement with AOL

On April 9, 2012, Microsoft announced that it had entered into a definitive agreement with AOL Inc. ("AOL") to acquire over 800 of AOL's patents and related patent applications and to license on a non-exclusive basis AOL's retained patent portfolio for $1.1 billion in cash. The transaction is expected to be completed by the end of 2012, upon the satisfaction of customary conditions and regulatory approvals.

Liquidity

We earn a significant amount of our operating income outside the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. As a result, as discussed above under Cash, Cash Equivalents, and Investments, the majority of our cash, cash equivalents, and short-term investments are held by foreign subsidiaries. We currently do not intend nor foresee a need to repatriate these funds. We expect existing domestic cash, cash equivalents, short-term investments, and cash flows from operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends, debt repayment schedules, and material capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. In addition, we expect existing foreign cash, cash equivalents, short-term investments, and cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, such as business acquisitions and share repurchases, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings. We have borrowed funds domestically and continue to have the ability to do so at reasonable interest rates.

RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

On July 1, 2011, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") on disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll-forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Adoption of this new guidance did not have a material impact on our financial statements.

On January 1, 2012, we adopted guidance issued by the FASB on accounting and disclosure requirements related to fair value measurements. The guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. Adoption of this new guidance did not have a material impact on our financial statements.

Recent Accounting Guidance Not Yet Adopted

In December 2011, the FASB issued guidance enhancing disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. The new guidance will be effective for us beginning July 1, 2013. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The new guidance will be effective for us beginning July 1, 2012.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. This portion of the guidance will be effective for us beginning July 1, 2012 and will require financial statement presentation changes only. The new guidance also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. However, in December 2011, the FASB issued guidance which indefinitely defers the guidance related to the presentation of reclassification adjustments.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include revenue recognition, impairment of investment securities, goodwill, research and development costs, contingencies, income taxes, and stock-based compensation.

Revenue Recognition

Software revenue recognition requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence ("VSOE") of fair value exists for those elements. A portion of revenue may be recorded as unearned due to undelivered elements. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

Impairment of Investment Securities

Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we employ a systematic methodology quarterly that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed-income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

Goodwill

We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (May 1 for us) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Among our reporting units, the fair value of OSD has been the closest to its carrying value and is most sensitive to changes in assumptions. We will continue to monitor OSD as we complete our annual planning process and evaluate results. We will be conducting our annual goodwill impairment test as of May 1, 2012. As of the date of our most recent goodwill impairment test, May 1, 2011, OSD's fair value exceeded its carrying value by 21%. The carrying value of OSD's goodwill was $6.4 billion as of March 31, 2012.

The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit.

Research and Development Costs

Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to manufacturing. The amortization of these costs is included in cost of revenue over the estimated life of the products.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial statements.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial statements.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be impacted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISKS

We are exposed to economic risk from foreign currency exchange rates, interest rates, credit risk, equity prices, and commodity prices. A portion of these risks is hedged, but they may impact our financial statements.

Foreign Currency

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily and use hedges where practicable to offset the risks and maximize the economic effectiveness of our foreign currency positions. Principal currencies hedged include the euro, Japanese yen, British pound, and Canadian dollar.

Interest Rate

Our fixed-income portfolio is diversified across credit sectors and maturities, consisting primarily of investment-grade securities. The credit risk and average maturity of the fixed-income portfolio is managed to achieve economic returns that correlate to certain global and domestic fixed-income indices. In addition, we use “To Be Announced” forward purchase commitments of mortgage-backed assets to gain exposure to agency and mortgage-backed securities.

Equity

Our equity portfolio consists of global, developed, and emerging market securities that are subject to market price risk. We manage the securities relative to certain global and domestic indices and expect their economic risk and return to correlate with these indices.

Commodity

We use broad-based commodity exposures to enhance portfolio returns and facilitate portfolio diversification. Our investment portfolio has exposure to a variety of commodities, including precious metals, energy, and grain. We manage these exposures relative to global commodity indices and expect their economic risk and return to correlate with these indices.

VALUE-AT-RISK

We use a value-at-risk (“VaR”) model to estimate and quantify our market risks. VaR is the expected loss, for a given confidence level, in the fair value of our portfolio due to adverse market movements over a defined time horizon. The VaR model is not intended to represent actual losses in fair value, including determinations of other-than-temporary losses in fair value in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), but is used as a risk estimation and management tool. The distribution of the potential changes in total market value of all holdings is computed based on the historical volatilities and correlations among foreign currency exchange rates, interest rates, equity prices, and commodity prices, assuming normal market conditions.

The VaR is calculated as the total loss that will not be exceeded at the 97.5 percentile confidence level or, alternatively stated, the losses could exceed the VaR in 25 out of 1,000 cases. Several risk factors are not captured in the model, including liquidity risk, operational risk, and legal risk.

The following table sets forth the one-day VaR for substantially all of our positions as of March 31, 2012 and June 30, 2011 and for the three months ended March 31, 2012:

(In millions)

	March 31, 2012	June 30, 2011	Three Months Ended March 31, 2012		
Risk Categories			**Average**	**High**	**Low**
Foreign currency	**$ 141**	$ 86	**$ 155**	**$ 168**	**$ 141**
Interest rate	**$ 71**	$ 58	**$ 65**	**$ 73**	**$ 59**
Equity	**$ 182**	$ 212	**$ 175**	**$ 184**	**$ 159**
Commodity	**$ 19**	$ 28	**$ 19**	**$ 20**	**$ 18**

Total one-day VaR for the combined risk categories was $308 million at March 31, 2012 and $290 million at June 30, 2011. The total VaR is 26% less at March 31, 2012, and 25% less at June 30, 2011, than the sum of the separate risk categories in the above table due to the diversification benefit of the combination of risks.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 15 – Contingencies of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q) for information about certain legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

The cloud-based computing model presents execution and competitive risks. We are transitioning our strategy to a computing environment characterized by cloud-based services used with smart client devices. Our competitors are rapidly developing and deploying cloud-based services for consumers and business customers. Pricing and delivery models are evolving. Devices and form factors influence how users access services in the cloud. We are devoting significant resources to develop and deploy our own competing cloud-based software plus services strategies. While we believe our expertise, investments in infrastructure, and the breadth of our cloud-based services provides us with a strong foundation to compete, it is uncertain whether our strategies will attract the users or generate the revenue required to be successful. In addition to software development costs, we are incurring costs to build and maintain infrastructure to support cloud computing services. These costs may reduce the operating margins we have previously achieved. Whether we are successful in this new business model depends on our execution in a number of areas, including:

- continuing to innovate and bring to market compelling cloud-based experiences that generate increasing traffic and market share;
- maintaining the utility, compatibility, and performance of our cloud-based services on the growing array of computing devices, including PCs, smartphones, handheld computers, netbooks, tablets, and television-related devices;

- continuing to enhance the attractiveness of our cloud platforms to third-party developers; and
- ensuring that our cloud services meet the reliability expectations of our customers and maintain the security of their data.

Challenges to our business models may reduce our revenue or operating margins. Whether our software runs in the cloud or on a device, we continue to face challenges from alternative means of developing and licensing software. Under our license-based software model, software developers bear the costs of converting original ideas into software products through investments in research and development, offsetting these costs with the revenue received from distribution of their products. Certain “open source” software business models challenge our license-based software model. Open source commonly refers to software whose source code is subject to a license allowing it to be modified, combined with other software and redistributed, subject to restrictions set forth in the license. Some companies compete with us using an open source business model by modifying and then distributing open source software to end users at nominal cost and earning revenue on complementary services and products. These firms do not bear the full costs of research and development for the software. In some cases, their products may infringe our patents. In addition, advertising-based business models seek revenue by delivering third party advertisements to end customers who receive the software and services at no direct cost. Gains in market acceptance of open source or advertising based software may adversely affect our sales, revenue, and operating margins.

An important element of our business model has been to create platform-based ecosystems on which many participants can build diverse solutions. A competing vertically-integrated model, in which a single firm controls both the software and hardware elements of a product, has been successful with some consumer products such as personal computers, mobile phones, and digital music players. We also offer vertically-integrated hardware and software products; however, efforts to compete with the vertically integrated model may increase our cost of sales and reduce our operating margins.

We derive substantial revenue from licenses of Windows operating systems on personal computers. The proliferation of alternative devices and form factors creates challenges from competing software platforms. It is uncertain to what extent alternative devices will increase the number of computing devices that users own, or will substitute for users’ personal computer purchases. Alternative devices also run operating systems and applications developed by our competitors. These factors could impact our revenue and operating margins.

We face intense competition. We continue to experience intense competition across all markets for our products and services. Our competitors range in size from Fortune 100 companies to small, specialized single-product businesses and open source community-based projects. Although we believe the breadth of our businesses and portfolio of products and services is a competitive advantage, our competitors that are focused on narrower product lines may be more effective in devoting technical, marketing, and financial resources to compete with us. In addition, barriers to entry in our businesses generally are low and products, once developed, can be distributed broadly and quickly at relatively low cost. Open source software vendors are devoting considerable efforts to developing software that mimics the features and functionality of our products, in some cases in violation of our intellectual property rights or on the basis of technical specifications for Microsoft technologies that we make available at little or no cost in connection with our interoperability initiatives. In response to competition, we continue to develop versions of our products with basic functionality that are sold at lower prices than the standard versions. These competitive pressures may result in decreased sales volumes, price reductions, and/or increased operating costs, such as for marketing and sales incentives, resulting in lower revenue, gross margins, and operating income.

We may not be able to adequately protect our intellectual property rights. Protecting our global intellectual property rights and combating unlicensed copying and use of software and other intellectual property is difficult. While piracy adversely affects U.S. revenue, the impact on revenue from outside the U.S. is more significant, particularly in countries where laws are less protective of intellectual property rights. As a result, our revenue in these markets may grow slower than the underlying PC market. Similarly, the absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. Throughout the world, we actively educate consumers about the benefits of licensing genuine products and obtaining indemnification benefits for intellectual property risks, and we educate lawmakers about the advantages of a business climate where intellectual property rights are protected. However, continued educational and enforcement efforts may fail to enhance revenue. Reductions in the legal protection for software intellectual property rights could adversely affect revenue.

Third parties may claim we infringe their intellectual property rights. From time to time, we receive notices from others claiming we infringe their intellectual property rights. Because of constant technological change in the segments in which we compete, the extensive patent coverage of existing technologies, and the rapid rate of issuance of new patents, it is possible the number of these claims may grow. To resolve these claims we may enter into royalty and licensing agreements on terms that are less favorable than currently available, stop selling or redesign affected products, or pay damages to satisfy indemnification commitments with our customers. These outcomes may cause operating margins to decline. In addition to money damages, in some jurisdictions plaintiffs can seek injunctive relief that may limit or prevent importing, marketing, and selling our products that have infringing technologies. In some countries, such as Germany, an injunction can be issued before the parties have fully litigated the validity of the underlying patents. We have made and expect to continue making significant expenditures to settle claims related to the use of technology and intellectual property rights as part of our strategy to manage this risk.

We may not be able to protect our source code from copying if there is an unauthorized disclosure of source code. Source code, the detailed program commands for our operating systems and other software programs, is critical to our business. Although we license portions of our application and operating system source code to a number of licensees, we take significant measures to protect the secrecy of large portions of our source code. If an unauthorized disclosure of a significant portion of our source code occurs, we could potentially lose future trade secret protection for that source code. This could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins. Unauthorized disclosure of source code also could increase the security risks described in the next paragraph.

Security vulnerabilities could lead to reduced revenue, liability claims, or competitive harm. Maintaining the security of computers and computer networks is paramount for us and our customers. Hackers develop and deploy viruses, worms, and other malicious software programs that attack our products and services and gain access to our networks and data centers. Although this is an industry-wide problem that affects computers across all platforms, it affects our products and services in particular because hackers tend to focus their efforts on the most popular operating systems, programs, and services, and we expect them to continue to do so. Groups of hackers may also act in a coordinated manner to launch distributed denial of service attacks, or other coordinated attacks, that may cause service outages or other interruptions. We devote significant resources to address security vulnerabilities through:

- engineering more secure products and services;
- enhancing security and reliability features in our products and services, and continuously evaluating and updating those security and reliability features;
- helping our customers make the best use of our products and services to protect against computer viruses and other attacks;
- improving the deployment of software updates to address security vulnerabilities;
- investing in mitigation technologies that help to secure customers from attacks even when such software updates are not deployed; and
- providing customers online automated security tools, published security guidance, and security software such as firewalls and anti-virus software.

We also devote significant resources to protect the digital security infrastructure that ensures the integrity of our products and services. The cost of these steps could reduce our operating margins. Despite these efforts, actual or perceived security vulnerabilities in our products and services could cause significant reputational harm and lead some customers to seek to return products, to reduce or delay future purchases or adoption of services, or to use competing products. Customers may also increase their expenditures on protecting their existing computer systems from attack, which could delay adoption of new technologies. Any of these actions by customers could adversely affect our revenue. Actual or perceived vulnerabilities may lead to claims against us. Although our license agreements typically contain provisions that eliminate or limit our exposure to such liability, there is no assurance these provisions will withstand all legal challenges.

In addition, our internal information technology environment continues to evolve. We are often early adopters of new devices and technologies. We embrace new ways of sharing data and communicating with partners and customers using methods such as social networking. These practices can enhance efficiency and business insight, but they also present risks that our business policies and internal security controls may not keep pace with the speed of these changes. If third parties gain access to our networks or data centers, they could obtain and exploit confidential business information and harm our competitive position.

Improper disclosure of personal data could result in liability and harm our reputation. As we continue to execute our strategy of increasing the number and scale of our cloud-based offerings, we store and process increasingly large amounts of personally identifiable information of our customers. At the same time, the continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. This environment demands that we continuously improve our design and coordination of security controls across our business groups and geographies. Despite these efforts, it is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Improper disclosure of this information could harm our reputation, lead to legal exposure to customers, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. Our software products and services also enable our customers to store and process personal data on premises or, increasingly, in a cloud-based environment we host. We believe consumers using our email, messaging, storage, sharing, and social networking services will increasingly want efficient, centralized methods of choosing their privacy preferences and controlling their data. Perceptions that our products or services do not adequately protect the privacy of personal information could inhibit sales of our products or services, and could constrain consumer and business adoption of cloud-based solutions.

We may experience outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure. Our increasing user traffic and complexity of our products and services demand more computing power. We have spent and expect to continue to spend substantial amounts to purchase or lease data centers and equipment and to upgrade our technology and network infrastructure to handle increased traffic on our Web sites and in our data centers, and to introduce new products and services and support existing services such as Bing, Exchange Online, Office 365, SharePoint Online, Xbox LIVE, Windows Azure, Windows Live, and Microsoft Office Web Apps. We also are growing our business of providing a platform and back-end hosting for services provided by third-party businesses to their end customers. Maintaining and expanding this infrastructure is expensive and complex. Inefficiencies or operational failures, including temporary or permanent loss of customer data, could diminish the quality of our products, services, and user experience resulting in contractual liability, claims by customers and other third parties, damage to our reputation and loss of current and potential users, subscribers, and advertisers, each of which may harm our operating results and financial condition.

We are subject to government litigation and regulatory activity that affects how we design and market our products. As a leading global software maker, we receive close scrutiny from government agencies under U.S. and foreign competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. For example, we have been involved in the following actions.

Lawsuits brought by the U.S. Department of Justice, 18 states, and the District of Columbia in two separate actions were resolved through a Consent Decree that took effect in 2001 and a Final Judgment entered in 2002. These proceedings imposed various constraints on our Windows operating system businesses. These constraints included limits on certain contracting practices, mandated disclosure of certain software program interfaces and protocols, and rights for computer manufacturers to limit the visibility of certain Windows features in new PCs. Although the Consent Decree and Final Judgment expired in May 2011, we expect that federal and state antitrust authorities will continue to closely scrutinize our business.

The European Commission closely scrutinizes the design of high-volume Microsoft products and the terms on which we make certain technologies used in these products, such as file formats, programming interfaces, and protocols, available to other companies. In 2004, the Commission ordered us to create new versions of Windows that do not include certain multimedia technologies and to provide our competitors with specifications for how to implement certain proprietary Windows communications protocols in their own products. In 2009, the Commission accepted a set of commitments offered by Microsoft to address the Commission's concerns relating to competition in Web browsing software. The Commission's impact on product design may limit our ability to innovate in Windows or other products in the future, diminish the developer appeal of the Windows platform, and increase our product development costs. The availability of licenses related to protocols and file formats may enable competitors to develop software products that better mimic the functionality of our own products which could result in decreased sales of our products.

Government regulatory actions and court decisions such as these may hinder our ability to provide the benefits of our software to consumers and businesses, thereby reducing the attractiveness of our products and the revenue that come from them. New actions could be initiated at any time, either by these or other governments or private claimants, including with respect to new versions of Windows or other Microsoft products. The outcome of such actions, or steps taken to avoid them, could adversely affect us in a variety of ways, including:

- We may have to choose between withdrawing products from certain geographies to avoid fines or designing and developing alternative versions of those products to comply with government rulings, which may entail a delay in a product release and removing functionality that customers want or on which developers rely.
- We may be required to make available licenses to our proprietary technologies on terms that do not reflect their fair market value or do not protect our associated intellectual property.

- The rulings described above may be used as precedent in other competition law proceedings.

Our products and online services offerings, including new technologies we develop or acquire such as Skype, are subject to government regulation in some jurisdictions, including in areas of user privacy, telecommunications, data protection, and online content. The application of these laws and regulations to our business is often unclear, subject to change over time, and sometimes may conflict from jurisdiction to jurisdiction. Additionally these laws and governments' approach to their enforcement, as well as our products and services, are continuing to evolve. Compliance with these types of regulation may involve significant costs or require changes in products or business practices that result in reduced revenue. Noncompliance could result in penalties being imposed on us or orders that we stop the alleged noncompliant activity.

Our business depends on our ability to attract and retain talented employees. Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. We are limited in our ability to recruit internationally by restrictive domestic immigration laws. If we are less successful in our recruiting efforts, or if we are unable to retain key employees, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

Delays in product development schedules may adversely affect our revenue. The development of software products is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Our increasing focus on cloud-based software plus services also presents new and complex development issues. Significant delays in new product or service releases or significant problems in creating new products or services could adversely affect our revenue.

We make significant investments in new products and services that may not be profitable. Our growth depends on our ability to innovate by offering new, and adding value to our existing, software and service offerings. We will continue to make significant investments in research, development, and marketing for existing products, services, and technologies, including the Windows PC operating system, the Microsoft Office system, Bing, Windows Phone, Windows Server, Windows Live, the Windows Azure Services platform, Office 365 and other cloud-based services offerings, and the Xbox 360 entertainment platform. We will also continue to invest in new software and hardware products, services, and technologies. Investments in new technology are speculative. Commercial success depends on many factors, including innovativeness, developer support, and effective distribution and marketing. Our degree of success with Windows Phone, for example, will impact our ability to grow our share of the smartphone operating system market. It will also be an important factor in supporting our strategy of delivering value to end users seamlessly over a variety of form factors including PC, phone, and TV device classes. If customers do not perceive our latest offerings as providing significant new functionality or other value, they may reduce their purchases of new software products or upgrades, unfavorably impacting revenue. We may not achieve significant revenue from new product and service investments for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced historically.

Adverse economic conditions may harm our business. Unfavorable changes in economic conditions, including inflation, recession, or other changes in economic conditions, may result in lower information technology spending and adversely affect our revenue. If demand for PCs, servers, and other computing devices declines, or consumer or business spending for those products declines, our revenue will be adversely affected. Our product distribution system also relies on an extensive partner network. The impact of economic conditions on our partners, such as the bankruptcy of a major distributor, could result in sales channel disruption. Challenging economic conditions also may impair the ability of our customers to pay for products and services they have purchased. As a result, reserves for doubtful accounts and write-offs of accounts receivable may increase. We maintain an investment portfolio of various holdings, types, and maturities. These investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by unusual events that have affected global financial markets. A significant part of our investment portfolio consists of U.S. government securities. If global credit and equity markets experience prolonged periods of decline, or if there is a downgrade of U.S. government debt, our investment portfolio may be adversely impacted and we could determine that more of our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely impact our financial results.

We have claims and lawsuits against us that may result in adverse outcomes. We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. Although management currently believes resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial statements, the litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

We may have additional tax liabilities. We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We regularly are under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for the company. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form any proposed legislation may pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

Our vertically-integrated hardware and software products may experience quality or supply problems. Our hardware products such as the Xbox 360 console and other hardware devices we design and market are highly complex and can have defects in design, manufacture, or associated software. We could incur significant expenses, lost revenue, and reputational harm if we fail to detect or effectively address such issues through design, testing, or warranty repairs. We obtain some components of our hardware devices from sole suppliers. If a component delivery from a sole-source supplier is delayed or becomes unavailable or industry shortages occur, we may be unable to obtain timely replacement supplies, resulting in reduced sales. Either component shortages or excess or obsolete inventory may increase our cost of revenue. Xbox 360 consoles are assembled in Asia; disruptions in the supply chain may result in console shortages that would affect our revenue and operating margins. These same risks would apply to any other vertically-integrated hardware and software products we may offer.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings. Under accounting principles generally accepted in the United States ("U.S. GAAP"), we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively impacting our results of operations.

We operate a global business that exposes us to additional risks. We operate in over 100 countries and a significant part of our revenue comes from international sales. Pressure to make our pricing structure uniform might require that we reduce the sales price of our software in the U.S. and other countries. Operations outside the U.S. may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents. Emerging markets are a significant focus of our international growth strategy. The developing nature of these markets presents a number of risks. Deterioration of social, political, labor, or economic conditions in a specific country or region, such as current uncertainties relating to European sovereign and other debt, and difficulties in staffing and managing foreign operations, may also adversely affect our operations or financial results. Although we hedge a portion of our international currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our net revenue.

Catastrophic events or geo-political conditions may disrupt our business. A disruption or failure of our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event could cause delays in completing sales, providing services, or performing other mission-critical functions. Our corporate headquarters, a significant portion of our research and development activities, and certain other critical business operations are located in the Seattle, Washington area, and we have other business operations in the Silicon Valley area of California, both of which are near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations. Our move toward providing our customers with more services and solutions in the cloud puts a premium on the resilience of our systems and strength of our business continuity management plans, and magnifies the potential impact of prolonged outages on our operating results. Abrupt political change, terrorist activity, and armed conflict pose a risk of general economic disruption in affected countries, which may increase our operating costs. These conditions also may add uncertainty to the timing and budget for technology investment decisions by our customers, and may result in supply chain disruptions for hardware manufacturers, either of which may adversely affect our revenue. The long-term effects of climate change on the global economy in general or the information technology industry in particular are unclear. Environmental regulations or changes in the supply, demand or available sources of energy may affect the availability or cost of goods and services, including natural resources, necessary to run our business. Changes in weather where we operate may increase the costs of powering and cooling computer hardware we use to develop software and provide cloud-based services. New regulations may require us to find alternative compliant and cost-effective methods of distributing our products and services.

Acquisitions, joint ventures and strategic alliances may have an adverse effect on our business. We expect to continue making acquisitions or entering into joint ventures and strategic alliances as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we don't realize a satisfactory return on our investment, or that we experience difficulty integrating new employees, business systems, and technology, or diversion of management's attention from our other businesses. Our recent acquisition of Skype, for example, provides opportunities to enhance our existing products. The success of our integration of Skype will depend in part on our ability to create innovative and compelling experiences that distinguish us from our competitors in both consumer and business markets. It may take longer than expected to realize the full benefits from these transactions, such as increased revenue, enhanced efficiencies, or market share, or those benefits may ultimately be smaller than anticipated, or may not be realized. These events could harm our operating results or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Items 2(a) and (b) are not applicable.

(c) STOCK REPURCHASES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
				(in millions)
January 1, 2012 – January 31, 2012	0	$ 0	0	$ 10,221
February 1, 2012 – February 29, 2012	13,360,900	$ 31.05	13,360,900	$ 9,806
March 1, 2012 – March 31, 2012	18,053,801	$ 32.41	18,053,801	$ 9,221
	31,414,701		31,414,701	

During the third quarter of fiscal year 2012, we repurchased 31.4 million shares of Microsoft common stock for $1.0 billion using cash resources. The repurchases occurred in the open market and pursuant to a trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934. As of March 31, 2012, approximately $9.2 billion remained of our $40.0 billion repurchase program that we announced on September 22, 2008. The program expires September 30, 2013 but may be suspended or discontinued at any time without notice.

ITEM 6. EXHIBITS

10.5*	Microsoft Corporation Deferred Compensation Plan
15	Letter regarding unaudited interim financial information
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* *Indicates a management contract or compensatory plan or arrangement*

** *Furnished, not filed.*

Items 3, 4, and 5 are not applicable and have been omitted.

SIGNATURE

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

MICROSOFT CORPORATION

/S/ FRANK H. BROD
Frank H. Brod
Corporate Vice President, Finance and Administration;
Chief Accounting Officer (Duly Authorized Officer)

April 19, 2012

MICROSOFT CORPORATION
DEFERRED COMPENSATION PLAN
(Restated Effective as of April 15, 2012)

1. Purpose.

The purpose of the Microsoft Corporation Deferred Compensation Plan (the "Plan") is to further the long-term growth of Microsoft Corporation (the "Company") by allowing selected Company executives and other senior management or highly compensated employees to defer receipt of certain compensation in order to keep their financial interests aligned with the Company and provide them with a long-term incentive to continue employment with the Company.

The Plan was formerly known as the 1998 Microsoft Corporation Stock Option Gain and Bonus Deferral Program. The name of the Plan was changed pursuant to a restatement effective January 1, 2006.

This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

2. Effective Date.

The Plan was originally effective November 18, 1998. Except as specifically set forth below, this restatement of the Plan is effective as of April 15, 2012.

3. Definitions.

Account – means a bookkeeping account established by the Company for each Participant electing to defer Eligible Income under the Plan, which may include sub-accounts for different types of Eligible Income deferred and for amounts payable at different times and/or payable in different forms.

Acquisition Retention Bonus – means a bonus provided to a Newly Hired Eligible Employee who continues employment with the Company or a Designated Subsidiary after the acquisition of a business by the Company or a Designated Subsidiary or who begins employment with the Company or a Designated Subsidiary as part of a strategic alliance.

Acquisition Signing Bonus – means a bonus provided to a Newly Hired Eligible Employee upon acceptance of an offer to continue employment with the Company or a Designated Subsidiary after the acquisition of a business by the Company or a Designated Subsidiary or to begin employment with the Company or Designated Subsidiary as part of a strategic alliance.

Affiliate – means any corporation or other entity that is treated as a single employer with the Company under Code section 414.

Annual Base Salary – means the regular annual base salary paid to an Eligible Employee.

Board – means the Board of Directors of Microsoft Corporation.

Code – means the Internal Revenue Code of 1986, as amended.

Company – means Microsoft Corporation.

Date of Hire – means the date of a Participant's first day of active employment with the Company and its Affiliates.

Designated Subsidiary – means a subsidiary of the Company that has been approved for participation in the Plan by the Senior HR Officer. A listing of the Designated Subsidiaries is in Appendix A.

Disabled – means:

(a) A Participant (1) is unable 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 can be expected to last for a continuous period of not less than 12 months, or (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the participant's employer.

(b) The Plan Administrator, in its complete and sole discretion, shall determine whether a Participant is Disabled. The Plan Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Plan Administrator to assist in determining whether the Participant is Disabled. On the basis of such medical evidence, the determination of the Plan Administrator as to whether or not the Participant is Disabled (or whether he continues to be Disabled) shall be conclusive.

Eligible Employee – means:

(a) An Employee of the Company or a Designated Subsidiary working in the U.S. at the Company's stock level 68 or above and, effective with respect to Eligible Income earned for periods beginning on or after January 1, 2012, an Employee of the Company or a Designated Subsidiary working in the U.S. at the Company's stock level 67 or above.

(b) An Employee meeting the criteria of subsection (a) will not fail to be considered an Eligible Employee solely as a result of being on paid or unpaid leave.

Eligible Income – means compensation which may be deferred under the Plan, as from time to time determined by the Plan Administrator, including without limitation (1) Regular Enrollment Compensation and (2) New Hire Enrollment Compensation. Amounts will qualify as "Eligible Income" only if the Participant is on the U.S. payroll of the Company or its Affiliates at the time the amount is payable to the Participant absent deferral.

Employee – means an individual who is a regular employee on the U.S. payroll of the Company or its Affiliates. The term "Employee" shall not include a person hired as an independent contractor, leased employee, consultant, or a person otherwise designated by the Company or an Affiliate as not eligible to participate in the Plan, even if such person is determined to be a common law employee of the Company or an Affiliate by any governmental or judicial authority.

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

Fiscal Year Compensation – means "fiscal year compensation" as defined under Treas. Reg. § 1.409A-2(a)(6) or any successor thereto.

Hire Date – means the date an Employee becomes employed by the Company or a Designated Subsidiary. In the case of an individual who becomes an Employee upon the acquisition of a business by the Company or a Designated Subsidiary, the Employee's "Hire Date" shall be his transfer date.

Investment Options – means a set of investment options, which may include investment options offered under the 401(k) Plan, and which are from time to time determined by the Plan Administrator and used to credit earnings, gains, and losses on Account balances.

Key Employee – means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) as of his Separation from Service (i.e., a key employee (as defined under Code section 416(i) without regard to paragraph (5) thereof) of a corporation any stock of which is publicly traded on an established securities market or otherwise). Key Employees shall be determined in accordance with Code section 409A, using a December 31 identification date. A listing of Key Employees as of an identification date shall be effective for the 12-month period beginning on the April 1 following the identification date.

New Hire Enrollment Compensation – means compensation for a Newly Hired Eligible Employee which is from time to time determined by the Plan Administrator, including without limitation a (1) New Hire Signing Bonus, (2) Acquisition Retention Bonus, and (3) Acquisition Signing Bonus.

New Hire Signing Bonus – means a bonus provided to a Newly Hired Eligible Employee upon acceptance of an offer of employment with the Company or a Designated Subsidiary.

Newly Hired Eligible Employee – means an individual hired by the Company or a Designated Subsidiary who meets the criteria for an Eligible Employee on his Hire Date, provided that an individual who has previously worked for the Company or an Affiliate will only qualify as a "Newly Hired Eligible Employee" if he meets the requirements of Treas. Reg. § 1.409A-2(a)(7) or any successor thereto. Generally, a re-hired individual will meet these requirements if (1) he has been paid any and all amounts due him under the Plan (and any plans required to be aggregated with the Plan under Code section 409A) prior to re-hire, or (2) he has not been eligible to participate, other than the accrual of earnings, in the Plan (or any other plan required to be aggregated with the Plan under Code section 409A) for at least 24 months.

Open Enrollment – means the period or periods during each Plan Year when Eligible Employees may elect to defer amounts under the Plan. Open Enrollment shall be held at the time or times designated by the Plan Administrator.

Participant – means an Eligible Employee who elects to defer Eligible Income under the Plan.

Performance-Based Compensation – means "performance-based compensation" as defined under Code section 409A.

Performance Review Bonus – means the amount payable to an Eligible Employee as an annual bonus that is awarded in connection with the Company's annual Performance Review process under the Performance Review Bonus Plan or the cash portion of awards under the Executive Incentive Plan.

Plan – means the Microsoft Corporation Deferred Compensation Plan, as amended from time to time.

Plan Administrator – means the Senior HR Officer or, with respect to the eligibility of executive officers of the Company to participate in the Plan, the Compensation Committee of the Board.

Plan Year – means the 12-month period from January 1 to December 31.

Regular Enrollment Compensation – means compensation which is from time to time determined by the Plan Administrator, including without limitation (1) Annual Base Salary, and (2) Performance Review Bonus.

Retirement – means a Separation from Service after attaining Retirement Age.

Retirement Age – means one specified date for each Participant occurring on the earlier of: (1) Participant's attainment of age sixty-five (65), or (2) the later of Participant's attainment of age fifty-five (55) or the tenth (10th) anniversary of his Date of Hire. When an Employee becomes eligible to participate in the Plan, the Plan Administrator shall determine the Retirement Age for the Employee as one specified date in accordance with the foregoing.

Senior HR Officer – means the senior officer in charge of the Human Resources department.

Separation from Service – means a "separation from service" with the Company and its Affiliates within the meaning of Code section 409A.

401(k) Plan – means the Microsoft Corporation Savings Plus 401(k) Plan.

4. Participation.

4.1 An Eligible Employee becomes an active Participant in the Plan on the date he first enrolls in the Plan by electing to defer all or any portion of his Eligible Income. An Eligible Employee may enroll in the Plan during Open Enrollment in accordance with Section 5.1(b)(i) or pursuant to Section 5.1(c). A Newly Hired Eligible Employee may enroll before his Hire Date in accordance with 5.1(b)(ii).

4.2 An Eligible Employee who has been an active Participant under the Plan will cease to be a Participant on the date his Account is fully distributed.

5. Participant Accounts.

5.1 Elections to Defer Eligible Income.

(a) Initial Deferral Election. An Eligible Employee may make an irrevocable election to defer the following types of Eligible Income in one (1) percent increments up to the specified maximum percentages:

(i) An Eligible Employee may elect to defer up to 50% of his Annual Base Salary.

(ii) An Eligible Employee may elect to defer up to 100% of a Performance Review Bonus.

(iii) An Eligible Employee may elect to defer up to 90% of New Hire Enrollment Compensation.

Eligible Employees are not permitted to defer gains on the exercise of a stock option under the Plan after December 31, 2004.

(b) Time and Manner of Making an Initial Election.

(i) An Eligible Employee may make an election to defer one or more types of Regular Enrollment Compensation during an Open Enrollment period that occurs in the Plan Year preceding the Plan Year in which the Regular Enrollment Compensation begins to be earned. A deferral election shall be made in accordance with procedures established by the Plan Administrator. An Employee's election during such an Open Enrollment period will not be given effect if the Employee ceases to be an Eligible Employee by the last day of the month in which the Open Enrollment period occurs.

(ii) A Newly Hired Eligible Employee may make an election to defer one or more types of New Hire Enrollment Compensation in accordance with procedures established by the Plan Administrator, provided such election occurs before his Hire Date and such election shall only apply to amounts earned after the election is filed. A Newly Hired Eligible Employee may make an election to defer Regular Enrollment Compensation during an Open Enrollment period that follows or coincides with his Hire Date.

(c) Alternative Election Deadlines. Notwithstanding the rules in subsection (b), if the Plan Administrator, in its sole discretion, determines that:

(i) Eligible Income constitutes Performance-Based Compensation that is based on services performed over a performance period of at least twelve (12) months, the Plan Administrator may establish procedures, including an Open Enrollment period, under which an Eligible Employee may elect to defer such Performance-Based Compensation, but such election must be made no later than six (6) months before the end of the performance period; or

(ii) Eligible Income constitutes Fiscal Year Compensation, the Plan Administrator may establish procedures, including an Open Enrollment period, under which an Eligible Employee may elect to defer such Fiscal Year Compensation, but such election must be made no later than the last day of the Company's fiscal year immediately preceding the first fiscal year in which services are performed related to such Eligible Income.

An Employee's election under this Section will not be given effect if the Employee ceases to be an Eligible Employee by the deadline stated above for making such an election.

(d) Cancellation of Election. If a Participant becomes Disabled, receives a hardship withdrawal under the 401(k) Plan, or obtains a distribution under Section 6.6 on account of an unforeseeable emergency during a Plan Year, his deferral election for such Plan Year shall be cancelled.

5.2 Crediting of Deferrals. Eligible Income deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant.

5.3 Vesting. A Participant shall at all times be one-hundred (100) percent vested in any amounts credited to his Account.

5.4 Investments and Earnings. The Company shall periodically credit gains, losses and earnings to a Participant's Account, until the full balance of the Account has been distributed. Amounts shall be credited to a Participant's Account under this Section based on the results that would have been achieved had amounts credited to the Account been invested as soon as practicable after crediting into the Investment Options selected by the Participant. The Plan Administrator shall specify procedures to allow Participants to make elections as to the deemed investment of amounts newly credited to their Accounts, as well as the deemed investment of amounts previously credited to their Accounts. Nothing in this Section or otherwise in the Plan, however, will require the Company to actually invest any amounts in such Investment Options or otherwise.

5.5 Employment Taxes. The Participant's share of FICA and FUTA taxes owed on Eligible Income the Participant elects to defer shall be deducted from other compensation payable to the Participant.

6. Distribution of Account Balances.

6.1 Distribution Form.

(a) A Participant may elect to have amounts deferred under the Plan (and earnings thereon) distributed in a lump sum payment or in annual installments over a period ranging from three (3) to fifteen (15) years.

(b) A Participant must specify the form in which a deferred amount (and earnings thereon) will be distributed at the time of making the initial deferral election under Section 5.1.

(c) Notwithstanding the distribution form elected under subsection (a), if at the time a portion of a Participant's Account is to be distributed, the portion of the balance to be distributed is less than $50,000, that portion shall be distributed in a lump sum payment at such time, provided that this subsection (c) shall not apply to any amounts deferred under the Plan pursuant to a deferral election that becomes irrevocable on or after June 30, 2011 (and earnings thereon).

(d) Distribution of a Participant's Account balance shall be made in cash.

6.2 Distribution Time.

(a) A Participant may elect to have distribution of a deferred amount (and earnings thereon) commence as of the following dates:

(i) A specified time (a particular month and year); or

(ii) Upon the Participant's Retirement.

(b) A Participant must specify the date on which distributions will commence at the time of making the initial deferral election under Section 5.1.

(c) If a Participant elects to have a deferred amount distributed as of a specified time, the specified time must be at least twelve (12) months after the date on which the final payment of the deferred amount would have been made to the Participant absent deferral.

6.3 Distribution Upon Retirement / Separation From Service.

(a) If a Participant reaches Retirement Age prior to having a Separation from Service, the distribution election under Section 6.2(a) will commence as follows:

(i) If the Participant elected commencement upon Retirement, the distribution will commence in the month following Retirement.

(ii) If the Participant elected commencement upon a specified time, the distribution will commence in the specified month and year.

(b) Notwithstanding a Participant's elections under Sections 6.1 and 6.2, upon a Participant's Separation from Service prior to reaching Retirement Age, his Account balance shall be distributed in an immediate lump sum payment in the month following the Separation from Service.

(c) Except as otherwise permitted under IRS guidance, if a distribution is to be made upon the Separation from Service of a Key Employee, distribution may not be made before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any payments that would otherwise be made during this period of delay shall be paid in accordance with the elected distribution method in the seventh month following Separation from Service (or, if earlier, the month after the Key Employee's death).

6.4 Distribution Upon Disability. Notwithstanding a Participant's elections under Sections 6.1 and 6.2, if a Participant becomes Disabled prior to attaining Retirement Age while employed with the Company or an Affiliate, his Account balance shall be distributed in an immediate lump sum payment in the month following the date the Participant becomes Disabled.

6.5 Distributions Upon Death.

(a) Notwithstanding a Participant's elections under Sections 6.1 and 6.2, if a Participant dies prior to attaining Retirement Age while employed with the Company or an Affiliate, his Account balance shall be distributed to the Participant's beneficiary in an immediate single lump sum payment in the month following the date of the Participant's death.

(b) A Participant shall designate his beneficiary prior to death in accordance with procedures established by the Plan Administrator. If a Participant has not properly designated a beneficiary or if no designated beneficiary is living on the date of distribution, such amount shall be distributed to the Participant's beneficiary designated under the 401(k) Plan, or if no designated beneficiary under the 401(k) Plan is living, in accordance with the default provisions under the 401(k) Plan.

(c) For purposes of determining the proper death beneficiary under this Plan, this Plan shall not be interpreted as preempting applicable state law regarding the ownership rights of Accounts upon a Participant's death. For example, although this Plan states that upon a Participant's death, Account balances will be paid to his beneficiary, the personal representative will be obligated to pay any benefits owed to a spouse or otherwise as a result of any applicable community property laws.

6.6 Withdrawals for Unforeseeable Emergency. A Participant may withdraw all or any portion of his Account balance for an Unforeseeable Emergency. The amounts distributed with respect to an Unforeseeable Emergency may not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Plan. "Unforeseeable Emergency" means for this purpose a severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

Except as otherwise permitted under IRS guidance, a Participant shall be required to take any available hardship withdrawals from the 401(k) Plan before being eligible to receive a withdrawal under this section.

6.7 Changes in Time or Form of Distribution. A Participant may make one or more subsequent elections to change the time or form of a distribution to be made as of a specified time or upon the occurrence of a distributable event for a deferred amount, but such an election will be effective only if the following conditions are satisfied:

(a) The election may not take effect until at least twelve (12) months after the date on which the election is made;

(b) A distribution may not be made earlier than at least five (5) years from the date the distribution would have otherwise been made;

(c) In the case of an election to change the time or form of a distribution payable as of a specified time, the election must be made at least twelve (12) months before the date of the first scheduled distribution; and

(d) The election may not result in an impermissible acceleration of payment prohibited under Code section 409A.

6.8 Effect of Taxation. If a portion of the Participant's Account balance is includible in income under Code section 409A, such portion shall be distributed immediately to the Participant.

6.9 Payment of Taxes. If state, local, or foreign tax obligations arise from participation in the Plan that apply to an amount deferred under the Plan before such amount is paid or made available to the Participant (the "Taxes"), the Company shall pay a portion of such deferred amount by distribution (a) to the Participant in the form of withholding pursuant to provisions of applicable state, local, or foreign law; or (b) directly to the Participant. In no event shall the total payment under this Section 6.9 exceed the aggregate amount of the Taxes, and the income tax withholding related to such Taxes.

6.10 Settlement of Bona Fide Dispute. Subject to certain presumptions under Code section 409A, if an arm's length, bona fide dispute between a Participant and the Company arises as to the Participant's right to an amount deferred under the Plan, the payment of the deferred amount as part of a settlement of such dispute shall be distributed immediately to the Participant.

6.11 Offset for Obligations to Company. If the Participant has any debt, obligation or other liability representing an amount owing to the Company (the "Debt"), incurred in the ordinary course of his employment relationship, the Company shall offset the Debt against the Participant's Account balance. The Company shall reduce the Participant's Account balance in satisfaction of the Debt at the same time and in the same amount as the Debt otherwise would have been due and collected from the Participant; provided however, in no event shall the amount of such offset in any of the Company's taxable years exceed $5,000.

6.12 2005 Deferred Compensation. Except as provided in Appendix C, Sections 6.1-6.11 shall govern the distribution of compensation earned and deferred under the Plan during the 2005 Plan Year.

6.13 Pre-2005 Deferrals. Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A.

7. Administration.

7.1 General Administration. The Plan Administrator shall be responsible for the operation and administration of the Plan and for carrying out the provisions hereof. The Plan Administrator shall have the full authority and discretion to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with this Plan. Except as otherwise provided in Section 7.2, any such action taken by the Plan Administrator shall be final and conclusive on any party. To the extent the Plan Administrator has been granted discretionary authority under the Plan, the Plan Administrator's prior exercise of such authority shall not obligate it to exercise its authority in a like fashion thereafter. The Plan Administrator shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan. The Plan Administrator may, from time to time, employ agents and delegate to such agents, including other employees of the Company, such administrative duties as it sees fit.

7.2 Claims for Benefits.

(a) Filing a Claim. A Participant or his authorized representative may file a claim for benefits under the Plan. Any claim must be in writing and submitted to the Senior HR Officer at such address as may be specified from time to time. Claimants will be notified in writing of approved claims, which will be processed as claimed. A claim is considered approved only if its approval is communicated in writing to a claimant.

(b) Denial of Claim. In the case of the denial of a claim respecting benefits paid or payable with respect to a Participant, a written notice will be furnished to the claimant within 90 days of the date on which the claim is received by the Senior HR Officer. If special circumstances (such as for a hearing) require a longer period, the claimant will be notified in writing, prior to the expiration of the 90-day period, of the reasons for an extension of time; provided, however, that no extensions will be permitted beyond 90 days after the expiration of the initial 90-day period.

(c) Reasons for Denial. A denial or partial denial of a claim will be dated and signed by the Senior HR Officer and will clearly set forth:

(i) the specific reason or reasons for the denial;

(ii) specific reference to pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(iv) an explanation of the procedure for review of the denied or partially denied claim set forth below, including the claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

(d) Review of Denial. Upon denial of a claim, in whole or in part, a claimant or his duly authorized representative will have the right to submit a written request to the Senior HR Officer for a full and fair review of the denied claim by filing a written notice of appeal with the Senior HR Officer within 60 days of the receipt by the claimant of written notice of the denial of the claim. A claimant or the claimant's authorized representative will have, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits and may submit issues and comments in writing. The review will take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

If the claimant fails to file a request for review within 60 days of the denial notification, the claim will be deemed abandoned and the claimant precluded from reasserting it. If the claimant does file a request for review, his request must include a description of the issues and evidence he deems relevant. Failure to raise issues or present evidence on review will preclude those issues or evidence from being presented in any subsequent proceeding or judicial review of the claim.

(e) Decision Upon Review. The Senior HR Officer will provide a prompt written decision on review. If the claim is denied on review, the decision shall set forth:

(i) the specific reason or reasons for the adverse determination;

(ii) specific reference to pertinent Plan provisions on which the adverse determination is based;

(iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and

(iv) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA section 502(a).

A decision will be rendered no more than 60 days after the Senior HR Officer's receipt of the request for review, except that such period may be extended for an additional 60 days if the Senior HR Officer determines that special circumstances (such as for a hearing) require such extension. If an extension of time is required, written notice of the extension will be furnished to the claimant before the end of the initial 60-day period.

(f) Finality of Determinations; Exhaustion of Remedies. To the extent permitted by law, decisions reached under the claims procedures set forth in this Section shall be final and binding on all parties. No legal action for benefits under the Plan shall be brought unless and until the claimant has exhausted his remedies under this Section. In any such legal action, the claimant may only present evidence and theories which the claimant presented during the claims procedure. Any claims which the claimant does not in good faith pursue through the review stage of the procedure shall be treated as having been irrevocably waived. Judicial review of a claimant's denied claim shall be limited to a determination of whether the denial was an abuse of discretion based on the evidence and theories the claimant presented during the claims procedure. Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the claim for benefits by the Senior HR Officer. The one-year limitation on suits for benefits will apply in any forum where a claimant initiates such suit or legal action.

(g) Disability Claims. Claims for disability benefits shall be determined under the DOL Regulation section 2560.503-1 which is hereby incorporated by reference.

8. Amendment and Termination.

8.1 Amendment or Termination. The Company reserves the right to amend or terminate the Plan when, in the sole discretion of the Company, such amendment or termination is advisable, pursuant to a resolution or other action taken by the Plan Administrator.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

8.2 Effect of Amendment or Termination. No amendment or termination of the Plan shall decrease the amounts credited to a Participant's Account as of such amendment or termination. Upon termination of the Plan, Participants' Account balances shall be distributed in accordance with the terms of Section 6, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

9. General Provisions.

9.1 Rights Unsecured. The right of a Participant or his beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor his beneficiary shall have any rights in or against any amount credited to any Account or any other assets of the Company. The Plan at all times shall be considered entirely unfunded for tax purposes. Any funds set aside by the Company for the purpose of meeting its obligations under the Plan, including any amounts held by a trustee, shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency. The Company's obligation under this Plan shall be that of an unfunded and unsecured promise to pay money in the future.

9.2 No Right to Eligible Income. Nothing in this Plan shall be construed to give any Eligible Employee any right to be granted Eligible Income or any other type of compensation.

9.3 No Enlargement of Rights. No Participant or beneficiary shall have any right to receive a distribution under the Plan except in accordance with the terms of the Plan. Establishment of the Plan shall not be construed to give any Participant the right to continue to be employed by or provide services to the Company or its affiliates or to employment that is not terminable at will.

9.4 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefits hereunder.

9.5 Nonalienation of Benefits. This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to a Participant's Account are not, except as provided in Sections 9.6 and 6.11, subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, will be null and void and not binding on the Plan or the Company.

9.6 Taxes. In addition to its rights under section 5.5, the Company or other payor may withhold from a benefit payment under the Plan or a Participant's wages any federal, state, or local taxes required by law to be withheld with respect to a payment or accrual under the Plan, and shall report such payments and other Plan-related information to the appropriate governmental agencies as required under applicable law.

9.7 Participant's Cooperation. The Participant shall cooperate with the Company by furnishing any and all information requested by the Plan Administrator in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Plan Administrator may deem necessary and taking such other actions as may be requested by the Plan Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan.

9.8 Incapacity of Recipient. If any person entitled to a distribution under the Plan is deemed by the Plan Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until a claim for such payment shall have been made by a duly appointed guardian or other legal representative of such person, the Plan Administrator may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan with respect to the payment.

9.9 Legally Binding. In the event of any consolidation, merger, acquisition or reorganization, the obligations of the Company under this Plan shall continue and be binding on the Company and its successors or assigns. The rights, privileges, benefits and obligations under the Plan are intended to be legal obligations of the Company and binding upon the Company, its successors and assigns.

9.10 Unclaimed Benefits. Each Participant shall keep the Plan Administrator informed of his current address and the current address of his designated beneficiary. The Plan Administrator shall not be obligated to search for the whereabouts of any person if the location of a person is not made known to the Plan Administrator.

9.11 Severability. In the event any provision of the Plan shall be held invalid or illegal for any reason, any illegality or invalidity shall not affect the remaining parts of the Plan, but the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted.

9.12 Words and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings used herein are included for ease of reference only, and are not to be construed so as to alter the terms hereof.

9.13 Applicable Law and Venue. To the extent not preempted by federal law, the Plan shall be governed by the laws of the State of Washington. In the event the Company or any Participant (or beneficiary) initiates litigation related to this Plan, the venue for such action will be in King County, Washington.

9.14 Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

9.15 Notice. Any notice or filing required or permitted to be given to the Plan Administrator under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail to the principal office of the Company, directed to the attention of the Plan Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

9.16 Attorneys' Fees and Costs. In the event that a dispute regarding benefits arises between the Company or Plan Administrator and a Participant (or beneficiary) and such dispute is resolved through arbitration or litigation in court, the prevailing party(ies) shall be entitled to their reasonable attorneys' fees and costs incurred in such action.

The Company has caused this restated Plan to be duly adopted and executed on this 6th day of April, 2012.

APPENDIX A

DESIGNATED SUBSIDIARIES

(As of April 15, 2012)

1429: Microsoft Licensing, GP

1654: MOL Corporation

1693: Vexcel Corporation

1548: Microsoft Online, Inc.

1888: Microsoft Payments, Inc.

1899: Microsoft Open Technologies, Inc.

APPENDIX B

GRANDFATHERED AMOUNTS

Distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A shall be made in accordance with the Plan terms as in effect on December 31, 2004 and as summarized in this Appendix B.

B.1 Timing. As soon as practicable following the final day of the Deferral Period for a specific deferral, the Company will distribute to the Participant (or in the case of the Participant's death, his estate), all proceeds in the Participant's Deferred Bonus Account and will issue to the Participant (or in the event of the Participant's death, the personal representative or beneficiaries of his estate) shares of Stock credited to the Participant's Deferred Stock Option Gain Account, that are attributed to that deferral. With respect to a specific deferral, the final day of the Deferral Period shall be the earliest of the last day of the Deferral Period selected by the Participant or the date he has a Termination of Employment. Upon Termination of Employment, a Participant will have the same rights with respect to an unexercised Option that he would have if he had not elected to defer the Stock Option Gain relating to that Option. The portion of a Participant's Accounts that can be attributed to a specific deferral shall be determined in the sole discretion of the Plan Administrator.

B.2 Extension of Deferral Period. On a one-time basis with respect to each deferral, a Participant may elect in accordance with procedures established by the Plan Administrator to extend the Deferral Period for a Bonus or Stock Option Gain for an additional five (5), seven (7), or ten (10) years, provided that such extension is elected in the calendar year prior, and at least six (6) months prior, to the expiration of the initial Deferral Period and the Participant is an Eligible Executive at the time he makes the election to extend the Deferral Period.

B.3 Disability. In the event of a Participant's Disability and upon application by such Participant, the Plan Administrator may determine that payment of all, or part, of such Participant's Accounts shall be made in a different manner, or on an earlier date than the time or times specified in Section B.1 above, but only to the extent determined by the Plan Administrator to be reasonably required to satisfy the Participant's need.

B.4 Investment of Accounts. Notwithstanding Section 5.4, a Participant shall not have the right to select among Investment Options for amounts credited to the Participant's Deferred Stock Option Gain Account. Such amounts shall be treated as if invested in Stock at all times.

B.5 Definitions. For purposes of this Appendix B, the following terms shall have the meanings indicated below:

Bonus means the amount payable by the Company to an Eligible Employee as an individual performance bonus, executive bonus or any other bonus/incentive award that is approved by the Plan Administrator for deferral under the Plan.

Deferral Period means with respect to a specific deferral of a Bonus or Stock Option Gain, the period of five (5), seven (7), or ten (10) years from the date on which the corresponding Bonus would otherwise have been paid or the date the Option was scheduled to expire had it not been exercised; provided that, in the event of the Participant's Termination of Employment, the Deferral Period shall end on the date of Termination of Employment.

Deferred Bonus Account means a bookkeeping account established for Bonuses deferred under the Plan.

Deferred Stock Option Gain Account means a bookkeeping account established for Stock Option Gains deferred under the Plan.

Disability means any long-term disability as defined under the Company's long-term disability plan. The Plan Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Plan Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Plan Administrator to assist in the determination of Disability. On the basis of such medical evidence, the determination of the Plan Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.

Eligible Executive means a full-time employee of the Company who is (i) an elected officer of the Company, (ii) at the level of Vice President or above, (iii) at Level 16 or above on the Company's salary range, and (iv) working within the United States of America. In addition, the Plan Administrator may, in his or her discretion, extend coverage to persons who are selected by the Plan Administrator and who either (y) meet all of the foregoing requirements except that they are working outside of the United States of America, or (z) are officers of a subsidiary of the Company.

Mature Shares means shares of the Company's Stock delivered by a Participant in payment of the exercise price of an Option; provided that Mature Shares shall not include any shares of the Company's Stock that may be received upon exercise of such Option, nor Stock that the Participant purchased pursuant to a prior stock option exercise which occurred less than six months prior to the exercise of such Option.

Option shall mean one or more non-qualified stock options, issued to a Participant under any stock option plan of the Company, with respect to which the Participant has elected to defer the Stock Option Gain. Option shall not include any rights under the Company's Employee Stock Purchase Plan.

Stock – means Microsoft Corporation common stock.

Stock Option Gain means the number of shares underlying an Option minus the number of Mature Shares required to pay the exercise price for those shares. For example, if a Participant elects to defer the gain on 100 shares and is required to deliver 10 shares of Stock as payment for the exercise price on the 100 shares, the Stock Option Gain will be 90 shares.

Termination of Employment means the termination of the Participant's employment relationship with the Company for any reason including, without limitation, involuntary termination with or without cause, voluntary termination, disability, death, or retirement.

APPENDIX C

2005 DEFERRED COMPENSATION

This Appendix C sets forth the special rules applicable to compensation eligible for deferral under the Plan from January 1, 2005 through December 31, 2005. Unless otherwise defined herein, capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Plan and Appendix B.

C-1. 2005 Initial Deferral Elections. Notwithstanding anything in Section 5.1 of the Plan to the contrary and only with respect to compensation earned during the 2005 Plan Year ("2005 Income"), an Eligible Employee may make an irrevocable election to defer up to 100% of a Bonus in ten (10) percent increments. Eligible Employees are not permitted to defer gains on the exercise of a stock option under the Plan after December 31, 2004.

C-2. Time of Distribution. The Company will distribute to the Participant (or in the case of the Participant's death, his estate) all proceeds in the Participant's Deferred Bonus Account that are attributed to a specific deferral upon the earlier of: (1) the last day of the Deferral Period elected by the Participant; or (2) the date of the Participant's Separation from Service; provided that, if a distribution is to be made upon the Separation from Service of a Key Employee, such distribution is subject to the six month delay set forth in Section 6.3(c) of the Plan.

For purposes of this Appendix C, "Deferral Period" means with respect to a specific deferral of a Bonus, the period, as elected by the Participant at the time of the deferral election, of five (5), seven (7), or ten (10) years from the date on which the corresponding Bonus would otherwise have been paid.

C-3. Changes in Time or Form of Distribution. To the extent the Company allows a Participant to make a subsequent election to change the time or form of distribution of 2005 Income deferred under the Plan, such election will be effective only if the conditions set forth in Section 6.7 of the Plan are satisfied.

C-4. General Application of the Plan. Other than as set forth above, the terms of the Plan in all other respects and in compliance with Code section 409A shall govern the distribution of 2005 Income deferred under the Plan from January 1, 2005 through December 31, 2005.

Microsoft Corporation
One Microsoft Way
Redmond, Washington

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Microsoft Corporation and subsidiaries for the periods ended March 31, 2012, and 2011, as indicated in our report dated April 19, 2012; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, is incorporated by reference in Registration Statement Nos. 333-120511, 333-109185, 333-06298, 333-16665, 333-118764, 333-75243, 333-91755, 333-52852, 333-102240, 33-36498, 33-45617, 333-132100, and 333-161516 of Microsoft Corporation on Form S-8 and Registration Statement Nos. 333-43449, 333-110107, 333-108843, and 333-155495 of Microsoft Corporation on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/S/ DELOITTE & TOUCHE LLP

Seattle, Washington

April 19, 2012

CERTIFICATIONS

I, Steven A. Ballmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microsoft Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ STEVEN A. BALLMER
Steven A. Ballmer
Chief Executive Officer

April 19, 2012

CERTIFICATIONS

I, Peter S. Klein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microsoft Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ PETER S. KLEIN
Peter S. Klein
Chief Financial Officer

April 19, 2012

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Microsoft Corporation, a Washington corporation (the “Company”), on Form 10-Q for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission (the “Report”), Steven A. Ballmer, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ STEVEN A. BALLMER
Steven A. Ballmer
Chief Executive Officer

April 19, 2012

[A signed original of this written statement required by Section 906 has been provided to Microsoft Corporation and will be retained by Microsoft Corporation and furnished to the Securities and Exchange Commission or its staff upon request.]

Exhibit 32.2

CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Microsoft Corporation, a Washington corporation (the "Company"), on Form 10-Q for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission (the "Report"), Peter S. Klein, Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PETER S. KLEIN
Peter S. Klein
Chief Financial Officer

April 19, 2012

[A signed original of this written statement required by Section 906 has been provided to Microsoft Corporation and will be retained by Microsoft Corporation and furnished to the Securities and Exchange Commission or its staff upon request.]