
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended June 30, 2011

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

WASHINGTON
(STATE OF INCORPORATION)

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

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399
(425) 882-8080

www.microsoft.com/investor

Securities registered pursuant to Section 12(b) of the Act:
COMMON STOCK, \$0.00000625 par value per share

NASDAQ

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant 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

As of December 31, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$208,370,414,170 based on the closing sale price as reported on the NASDAQ National Market System. As of July 20, 2011, there were 8,378,265,782 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on November 15, 2011 are incorporated by reference into Part III.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 28, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Seattle, Washington
July 28, 2011

NOTE 19 — OTHER COMPREHENSIVE INCOME

The activity in other comprehensive income and related income tax effects were as follows:

(In millions)			
Year Ended June 30,	2011	2010	2009
Net Unrealized Gains on Derivatives			
Unrealized gains (losses), net of tax effects of \$(340) , \$188, and \$472	\$ (632)	\$ 349	\$ 876
Reclassification adjustment for gains included in net income, net of tax effects of \$2 , \$(173), and \$(309)	5	(322)	(574)
Net unrealized gains on derivatives	\$ (627)	\$ 27	\$ 302
Net Unrealized Gains (Losses) on Investments			
Unrealized gains (losses), net of tax effects of \$726 , \$263, and \$(142)	\$ 1,349	\$ 488	\$ (263)
Reclassification adjustment for losses (gains) included in net income, net of tax effects of \$(159) , \$(120), and \$16	(295)	(223)	30
Net unrealized gains (losses) on investments	1,054	265	(233)
Translation adjustments and other, net of tax effects of \$205 , \$(103) and \$(133)	381	(206)	(240)
Other comprehensive income (loss)	\$ 808	\$ 86	\$ (171)

The components of accumulated other comprehensive income were as follows:

(In millions)			
Year Ended June 30,	2011	2010	2009
Net unrealized gains (losses) on derivatives	\$ (163)	\$ 464	\$ 437
Net unrealized gains on investments	1,821	767	502
Translation adjustments and other	205	(176)	30
Accumulated other comprehensive income	\$ 1,863	\$ 1,055	\$ 969

NOTE 20 — EMPLOYEE STOCK AND SAVINGS PLANS

We grant stock-based compensation to directors and employees. At June 30, 2011, an aggregate of 583 million shares were authorized for future grant under our stock plans, covering stock options, stock awards, and shared performance stock awards, and excluding shares reserved for issuance under our employee stock purchase plan. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plans. We issue new shares of Microsoft common stock to satisfy exercises and vestings of awards granted under all of our stock plans.

Stock-based compensation expense and related income tax benefits were as follows:

(In millions)			
Year Ended June 30,	2011	2010	2009
Stock-based compensation expense	\$ 2,166	\$ 1,891	\$ 1,708
Income tax benefits related to stock-based compensation	\$ 758	\$ 662	\$ 598

Stock Plans (Excluding Stock Options)

Stock awards

Stock awards (“SAs”) are grants that entitle the holder to shares of Microsoft common stock as the award vests. Our SAs generally vest over a five-year period.

Shared performance stock awards

Shared performance stock awards (“SPSAs”) are a form of SA in which the number of shares ultimately received depends on our business performance against specified performance targets.

We granted SPSAs for fiscal years 2011, 2010, and 2009 with performance periods of July 1, 2010 through June 30, 2011, July 1, 2009 through June 30, 2010, and July 1, 2008 through June 30, 2009, respectively. In August following the end of each performance period, the number of shares of stock subject to the award is determined by multiplying the target award by a percentage ranging from 0% to 150%. The percentage is based on performance metrics for the performance period, as determined by the Compensation Committee of the Board of Directors in its sole discretion. An additional number of shares, approximately 12% of the total target SPSAs, are available as additional awards to participants based on individual performance. One-quarter of the shares of stock subject to each award vest following the end of the performance period, and an additional one-quarter of the shares vest on each of the following three anniversaries of the grant date.

Executive Officer Incentive Plan

Under the Executive Officer Incentive Plan (“EOIP”), the Compensation Committee awards performance-based compensation to executive officers of the Company for specified performance periods. During the periods reported, executive officers were eligible to receive annual awards comprised of cash and SAs from an aggregate incentive pool equal to a percentage of the Company’s operating income. For fiscal years 2011, 2010, and 2009, the pool was 0.25%, 0.45%, and 0.35% of operating income, respectively.

In September following the end of the fiscal year, each executive officer may receive a combined cash and SA award with a total value equal to a fixed percentage of the aggregate pool. The fixed percentage ranges between 0% and 150% of a target based on an assessment of the executive officer’s performance during the prior fiscal year. Following approval of the awards, 20% of the award is payable to the executive officers in cash, and the remaining 80% is converted into an SA for shares of Microsoft common stock. The number of shares subject to the SA portion of the award is determined by dividing the value of 80% of the total award by the closing price of Microsoft common stock on the last business day in August of each year. The SA portion of the award vests one-quarter immediately after the award is approved following fiscal year-end and one-quarter on August 31 of each of the following three years.

Activity for all stock plans

The fair value of each award is estimated on the date of grant using the following assumptions:

Year Ended June 30,	2011	2010	2009
Dividends per share (quarterly amounts)	\$ 0.13 – \$ 0.16	\$ 0.13	\$ 0.11 - \$ 0.13
Interest rates range	1.1% - 2.4%	2.1% - 2.9%	1.4% - 3.6%

During fiscal year 2011, the following activity occurred under our stock plans:

	Shares (In millions)	Weighted Average Grant-Date Fair Value
Stock Awards		
Nonvested balance, beginning of year	223	\$ 24.76
Granted	114	\$ 22.17
Vested	(63)	\$ 25.00
Forfeited	(19)	\$ 23.97
Nonvested balance, end of year	255	\$ 23.59
Shared Performance Stock Awards		
Nonvested balance, beginning of year	30	\$ 25.32
Granted	18	\$ 22.56
Vested	(13)	\$ 25.63
Forfeited	(3)	\$ 24.05
Nonvested balance, end of year	32	\$ 23.76

As of June 30, 2011, there was \$4.5 billion and \$467 million of total unrecognized compensation costs related to SAs and SPSAs, respectively. These costs are expected to be recognized over a weighted average period of 3.3 years and 2.5 years, respectively.

During fiscal year 2010 and 2009, the following activity occurred under our stock plans:

(In millions, except fair values)	2010	2009
Stock Awards		
Awards granted	100	91
Weighted average grant-date fair value	\$ 23.43	\$ 24.95
Shared Performance Stock Awards		
Awards granted	12	10
Weighted average grant-date fair value	\$ 24.57	\$ 25.93

Following are the fair values of stock plan awards vested during the periods reported:

(In millions)	2011	2010	2009
Total vest-date fair value of stock awards vested	\$ 1,521	\$ 1,358	\$ 1,137
Total vest-date fair value of shared performance stock awards vested	\$ 289	\$ 227	\$ 485

Stock Options

We grant stock options primarily in conjunction with business acquisitions. We granted zero, one million, and one million stock options in conjunction with business acquisitions during fiscal years 2011, 2010, and 2009, respectively. Options generally vest over four and one-half years and expire 10 years from the date of grant.

Employee stock options activity during 2011 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In millions)		(Years)	(In millions)
Balance, July 1, 2010	187	\$ 24.68		
Exercised	(79)	\$ 24.91		
Canceled	(15)	\$ 28.84		
Balance, June 30, 2011	93	\$ 23.21	1.04	\$ 312
Exercisable, June 30, 2011	92	\$ 23.16	1.04	\$ 309

Options outstanding as of June 30, 2011 include approximately two million options that were granted in conjunction with business acquisitions. These options have an exercise price range of \$0.01 to \$29.24 and a weighted average exercise price of \$7.69.

During the periods reported, the following stock option exercise activity occurred:

(In millions)

	2011	2010	2009
Total intrinsic value of stock options exercised	\$ 222	\$ 365	\$ 48
Cash received from stock option exercises	\$ 1,954	\$ 1,839	\$ 88
Tax benefit realized from stock option exercises	\$ 77	\$ 126	\$ 12

Employee Stock Purchase Plan

We have an employee stock purchase plan for all eligible employees. Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value on the last day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. Employees purchased the following shares during the periods presented:

(Shares in millions)

Year Ended June 30,	2011	2010	2009
Shares purchased	20	20	24
Average price per share	\$ 22.98	\$ 23.73	\$ 20.13

At June 30, 2011, 43 million shares of our common stock were reserved for future issuance through the employee stock purchase plan.

Savings Plan

We have a savings plan in the U.S. that qualifies under Section 401(k) of the Internal Revenue Code, and a number of savings plans in international locations. Participating U.S. employees may contribute up to 50% of their salary, but not more than statutory limits. We contribute fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's earnings. Matching contributions for all plans were \$282 million, \$275 million, and \$262 million in fiscal years 2011, 2010, and 2009, respectively, and were expensed as contributed. Matching contributions are invested proportionate to each participant's voluntary contributions in the investment options provided under the plan. Investment options in the U.S. plan include Microsoft common stock, but neither participant nor our matching contributions are required to be invested in Microsoft common stock.