

MICROSOFT CORP  
Form 11-K  
June 29, 2011  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 11-K

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

For the fiscal year ended December 31, 2010

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-14278

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Microsoft Corporation**

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**One Microsoft Way**

**Redmond, Washington 98052-6399**

**REQUIRED INFORMATION**

The MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN (the Plan) is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Therefore, in lieu of the requirements of Items 1-3 of Form 11-K, the statements of net assets available for benefits as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010, which have been prepared in accordance with the financial reporting requirements of ERISA, are attached hereto as Appendix 1 and incorporated herein by this reference.

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**SIGNATURES**

*The Plan.* Pursuant to the requirements of the Securities and Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 29, 2011

MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN

*/s/ Cleber Voelzke*  
Cleber Voelzke  
General Manager

*/s/ Hilda Quinones*  
Hilda Quinones  
Financial Controller

*/s/ Marta Barreto*  
Marta Barreto  
Human Resources Manager

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**MICROSOFT CARIBBEAN, INC.**

**1165(e) RETIREMENT PLAN**

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND

2009 AND FOR THE YEAR ENDED DECEMBER 31, 2010,

AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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**MICROSOFT CARIBBEAN, INC. 1165(E) RETIREMENT PLAN**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Trustees and Participants of

Microsoft Caribbean, Inc. 1165(e) Retirement Plan:

We have audited the accompanying statements of net assets available for benefits of Microsoft Caribbean, Inc. 1165(e) Retirement Plan (the Plan ) as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010. These financial statements are the responsibility of the Plan'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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

*/s/ DELOITTE & TOUCHE LLP*

San Juan, Puerto Rico  
June 29, 2011

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**MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

**AS OF DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
INVESTMENTS At fair value	\$ 2,772,036	\$ 2,618,052
<b>CONTRIBUTIONS RECEIVABLE:</b>		
Participants	5,208	10,514
Employer	15,441	4,572
Total contributions receivable	20,649	15,086
<b>INTEREST AND OTHER RECEIVABLES</b>	<b>245</b>	<b>435</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 2,792,930</b>	<b>\$ 2,633,573</b>

See notes to financial statements.

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**MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN**

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>ADDITIONS:</b>		
Contributions:		
Participant contributions		\$ 214,500
Employer contributions		101,158
<b>Total contributions</b>		<b>315,658</b>
Investment income:		
Interest and dividends		27,715
Net appreciation in fair value of investments		88,964
<b>Net investment income</b>		<b>116,679</b>
<b>Total additions</b>		<b>432,337</b>
<b>DEDUCTIONS</b>	Benefits paid to participants	272,980
<b>INCREASE IN NET ASSETS</b>		<b>159,357</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS:</b>		
Beginning of year		2,633,573
<b>End of year</b>		<b>\$ 2,792,930</b>

See notes to financial statements.



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**MICROSOFT CARIBBEAN, INC. 1165(E) RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2010 AND 2009, AND**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

**1. DESCRIPTION OF THE PLAN**

The following brief description of the Microsoft Caribbean, Inc. 1165(e) Retirement Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General** The Plan is a defined contribution retirement plan covering substantially all employees of Microsoft Caribbean, Inc. (the "Sponsor"). The Plan was established effective January 1, 1999. An employee may become a participant in the Plan immediately upon becoming a regular employee. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's trustee is Banco Popular de Puerto Rico Trust Division.

**Contributions** Each year, participants may contribute up to the maximum deferral amount specified by local law. The Plan Sponsor contributes 50% of the first 6% of the base compensation that a participant contributes to the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

**Participant's Accounts** Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contributions and allocations of: (a) the Plan Sponsor's matching contributions and, (b) Plan earnings, and charged with withdrawals and an allocation of Plan losses and administrative expenses. Allocations are based on the participant's account balance, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Investments** Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers several mutual funds as well as Microsoft Corporation common stock as investment options for participants.

**Vesting** Contributions become vested as follows:

Participant Contributions Participant's contributions and accumulated earnings vest immediately.

Sponsor Matching Contribution Participants become 100% vested after two years of service, upon attainment of age 65, or death or disability while employed by the Sponsor.

**Payment of Benefits** On termination of service due to death, disability or retirement, a participant or its beneficiary may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or in periodic installments. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Use of Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Risks and Uncertainties** The Plan utilizes various investment instruments, including common stock and mutual funds. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**Investment Valuation and Income Recognition** The Plan's investments are stated at fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Microsoft Corporation common stock is valued at the closing price reported on the NASDAQ Exchange on the last business day of the Plan year. Money market funds are stated at amortized cost, which approximates fair value. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Management fees and operating expenses charged to the Plan for investments in mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

**Administrative Expenses** Administrative expenses of the Plan are paid by the Plan's sponsor as provided in the Plan document.

**Payments of Benefits** Benefit payments to participants are recorded upon distribution. Amounts allocated to accounts of participants withdrawing from the Plan, but have not yet been paid were approximately \$12,000 at December 31, 2010. There were none at December 31, 2009.

**Excess Contribution Payable** The Plan is required to return contributions received during the Plan year in excess of the maximum deferral amount specified by local law. There were no such payables as of December 31, 2010 and 2009.

**New Accounting Standards** ASU No. 2010-06, *Fair Value Measurements and Disclosures* In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures*, which amends ASC 820, *Fair Value Measurements and Disclosures*, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and

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clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Plan prospectively adopted the new guidance in 2010, except for the Level 3 reconciliation disclosures, which are required in 2011. The adoption in 2010 did not materially affect, and the future adoption is not expected to materially affect, the Plan's financial statements.

**Subsequent Events** Management has evaluated subsequent events occurring between December 31, 2010 and the date the financial statements were issued.

**3. FAIR VALUE MEASUREMENTS**

ASC 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows: Level 1, which refers to securities valued using unadjusted quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, a summary of the Plan's investments measured at fair value on a recurring basis at December 31, 2010 and 2009:

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2010 Total
Microsoft Corporation common stock	\$ 609,834	\$	\$	\$ 609,834
Mutual funds:				
Money market	783,097			783,097
Domestic growth	989,496			989,496
Domestic value	17,553			17,553
Domestic balance	9,478			9,478
Domestic fixed income	76,541			76,541
International equity	286,011			286,011
Total mutual funds	2,162,176			2,162,176
Time deposits	26			26
Total	\$ 2,772,036	\$	\$	\$ 2,772,036

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	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2009 Total
Microsoft Corporation common stock	\$ 693,847	\$	\$	\$ 693,847
Mutual funds:				
Money market	847,905			847,905
Domestic growth	683,162			683,162
Domestic value	9,593			9,593
Domestic balance	3,725			3,725
Domestic fixed income	83,435			83,435
International equity	296,379			296,379
Total mutual funds	1,924,199			1,924,199
Time deposits	6			6
Total	\$ 2,618,052	\$	\$	\$ 2,618,052

For the year ended December 31, 2010, there were no transfers in or out of Levels 1, 2 or 3.

**4. INVESTMENTS**

The Plan's investments that represented 5% or more of the Plan's net assets available for benefits as of December 31, 2010 and 2009, are as follows:

	2010	2009
Microsoft Corporation common stock	\$ 609,834	\$ 693,847
Invesco Basic Value A Fund (formerly Aim Basic Value A Fund)	144,028	137,334
Artio International Equity A Fund (formerly, Julius Baer Invst. Intl. Equity A Fund)	286,011	296,379
T Rowe Price 2020 Retirement Fund	144,254	
T Rowe Price 2030 Retirement Fund	296,236	164,249
Royce Pennsylvania Mutual Fund	157,657	139,470
Federated Trust U.S. Treasury Obligations Fund	783,097	847,905

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During the year ended December 31, 2010, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

Microsoft Corporation common stock	\$ (60,225)
Fidelity Advisor Growth Fund	57
Fidelity Advisor Growth Class T Fund	21,193
Artio International Equity A Fund (formerly, Julius Baer Invt. Intl. Equity A Fund)	21,984
Eaton Vance Large Cap Value Fund	1,443
Invesco Basic Value Fund (formerly, AIM Basic Value Fund)	8,940
Goldman Sachs Tr. Core Fixed Income A fund	2,978
T Rowe Price Growth Stk. Fund I Advisory Class	3,538
T Rowe Price 2050 Retirement Fund	9,547
T Rowe Price 2040 Retirement Fund	4,395
T Rowe Price 2030 Retirement Fund	31,844
T Rowe Price 2020 Retirement Fund	13,985
T Rowe Price 2010 Retirement Fund	513
Royce Pennsylvania Mutual Fund	28,491
Vanguard Bond Index Fund Inc.	281
Net appreciation in fair value of investments	\$ 88,964

**5. RELATED PARTY TRANSACTIONS**

Certain general and administrative expenses are paid by the Sponsor on behalf of the Plan. The amount paid by the Sponsor on behalf of the Plan for the year ended December 31, 2010, amounted to approximately \$31,000.

**6. EXEMPT PARTY-IN-INTEREST TRANSACTIONS**

At December 31, 2010 and 2009, the Plan held 21,850 and 22,764 shares, respectively, of common stock of Microsoft Corporation, the parent company of the Sponsor, with a cost basis of \$625,459 and \$652,993, respectively. During the year ended December 31, 2010, the Plan recorded dividend income of \$12,252 from Microsoft Corporation. In addition, the Plan has an interest bearing deposit with Banco Popular de Puerto Rico, the trustee for the Plan.

**7. NONEXEMPT PARTY-IN-INTEREST TRANSACTIONS**

During the year ended December 31, 2010, the Sponsor remitted participant contributions from several payroll periods totaling \$67,187 to the trustee later than required by the Department of Labor regulations. At December 31, 2010, participant accounts were pending to be credited by approximately \$13,000, including pending contributions and the amount of investment income that would have been earned had the participant contributions been remitted on a timely basis. These contributions are included as part of contributions receivable from employer in the accompanying 2010 statement of net assets available for benefits.

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**8. PLAN TERMINATION**

Although it has not expressed any intention to do so, the Sponsor has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event that the Plan is terminated, participants would become 100% vested in their accounts.

**9. INCOME TAX STATUS**

The Plan constitutes a qualified plan, exempt from income taxes under Puerto Rico income tax laws. The Plan has been amended since receiving its determination letter. However, the Sponsor and the Plan administrator believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Puerto Rico Treasury Department and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Puerto Rico taxing authorities. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2010 and 2009, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by the Puerto Rico taxing authorities; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2006

**10. SUBSEQUENT EVENT**

On January 31, 2011, a new Puerto Rico Internal Revenue Code (the 2011 Tax Code) was enacted, which replaces the Puerto Rico Internal Revenue Code of 1994, as amended. Among other changes, the 2011 Tax Code modifies rules concerning contributions limits, coverage requirements, non-discrimination testing, employees' stock option plans and individual retirement accounts. The 2011 Tax Code also provides for certain changes applicable to plans sponsored by entities under common control. These changes are effective for periods commencing after December 31, 2010, with certain additional requirements beginning on January 1, 2012.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-109185 on Form S-8 of our report dated June 29, 2011, relating to the financial statements of Microsoft Caribbean, Inc. 1165(e) Retirement Plan appearing in this Annual Report on Form 11-K of Microsoft Caribbean, Inc. 1165(e) Retirement Plan for the year ended December 31, 2010.

*/s/ DELOITTE & TOUCHE LLP*

San Juan, Puerto Rico  
June 29, 2011