

MICROSOFT CORP
Form 11-K
March 31, 2008
[Table of Contents](#)

UNITED STATES
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, 2007
- “ 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 CORPORATION 2003 EMPLOYEE STOCK PURCHASE PLAN
- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
Microsoft Corporation
One Microsoft Way
Redmond, Washington 98052-6399

Table of Contents

Microsoft Corporation

2003 Employee Stock

Purchase Plan

Financial Statements as of December 31, 2007 and 2006, and for Each of the Three Years in the Period Ended December 31, 2007, and Report of Independent Registered Public Accounting Firm

Table of Contents

MICROSOFT CORPORATION

2003 EMPLOYEE STOCK PURCHASE PLAN

TABLE OF CONTENTS

| | |
|--------------------------------------------------------------------------------------------------------------|------------------|
| <u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u> | Page 1 |
| FINANCIAL STATEMENTS: | |
| <u>Statements of Net Assets Available for Benefits as of December 31, 2007 and 2006</u> | 2 |
| <u>Statements of Changes in Net Assets for Each of the Three Years in the Period Ended December 31, 2007</u> | 3 |
| <u>Notes to Financial Statements</u> | 4 5 |
| <u>SIGNATURES</u> | 6 |
| EXHIBITS: | |
| Exhibit 23 Consent of Deloitte & Touche LLP | |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator

Microsoft Corporation

2003 Employee Stock Purchase Plan

Redmond, Washington

We have audited the accompanying statements of net assets available for benefits of the Microsoft Corporation 2003 Employee Stock Purchase Plan (the "Plan") as of December 31, 2007 and 2006, and the related statements of changes in net assets for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Plan's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2007 and 2006, and the changes in net assets for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Seattle, Washington

March 28, 2008

Table of Contents

MICROSOFT CORPORATION

2003 EMPLOYEE STOCK PURCHASE PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|-------------------------------------|--------------|--------------|
| ASSETS Cash | \$ 5,275,077 | \$ 4,380,973 |
| LIABILITIES Payable to participants | 5,274,559 | 4,380,372 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 518 | \$ 601 |

See notes to financial statements.

Table of Contents

MICROSOFT CORPORATION

2003 EMPLOYEE STOCK PURCHASE PLAN

STATEMENTS OF CHANGES IN NET ASSETS

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2007

| | 2007 | 2006 | 2005 |
|------------------------------------------|----------------|----------------|----------------|
| ADDITIONS Employee contributions | \$ 460,187,597 | \$ 420,368,007 | \$ 391,983,449 |
| DEDUCTIONS: | | | |
| Cost of shares purchased | 454,913,121 | 415,987,382 | 387,825,579 |
| Payable to participants | 5,274,559 | 4,380,372 | 4,157,872 |
| Net deductions | 460,187,680 | 420,367,754 | 391,983,451 |
| CHANGES IN ASSETS AVAILABLE FOR BENEFITS | (83) | 253 | (2) |
| ASSETS AVAILABLE FOR BENEFITS: | | | |
| Beginning of year | 601 | 348 | 350 |
| End of year | \$ 518 | \$ 601 | \$ 348 |

See notes to financial statements.

Table of Contents

MICROSOFT CORPORATION

2003 EMPLOYEE STOCK PURCHASE PLAN

NOTES TO FINANCIAL STATEMENTS

1. THE PLAN

The following provides only general Plan information; participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General The Plan Administrator believes the Plan meets the qualification standards of Section 423 of the Internal Revenue Code of 1986. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

The Plan covers substantially all employees of Microsoft Corporation (the Company) who are considered regular employees of the Company, whose hire date is before the first business day of the offering period, and where customary employment is for more than five months in any calendar year.

Contributions Participants may make contributions to the Plan through payroll deductions (not exceeding 15% of their compensation) for the purpose of purchasing the Company's common stock. The Plan operates with separate consecutive three-month periods with the following offering dates: July 1, October 1, January 1, and April 1. The Plan will continue to operate in this manner until such time as the Plan is amended or terminated (see Note 2).

Share Purchase and Withdrawals Participants are granted the option to purchase shares of the Company's common stock from the Company at 90% of the fair market value on the last business day of the three-month periods ending March 31, June 30, September 30 and December 31. If, prior to the end of any period, a participant elects to withdraw from the Plan or has been terminated, the Plan refunds any amounts withheld in that period plus any carryover from the previous period. Participants of the Plan purchased 16,774,379 shares, 17,288,724 shares, and 17,075,478 shares of the Company's common stock during the years ended December 31, 2007, 2006, and 2005, under the Plan, respectively. Under the Plan, 116,005,244 shares are reserved for future issue. Refunds from participant withdrawals have not been significant. The maximum number of shares that will be offered under the Plan is 200,000,000.

Payable to Participants Payable to participants represents cash in participant accounts that was contributed to the Plan greater than the cost of the maximum number of shares allowed to be purchased in a six-month or three-month period (see Limitations). All such amounts will be refunded to participants from the Plan and as such are not included in net assets available for benefits.

Limitations Employees owning shares representing 5% or more of the total combined voting power or value of all classes of shares of the Company are not permitted to subscribe for any shares under the Plan. Under the Plan, no participant may purchase more than 2,000 shares of stock during a three-month offering period for a total of 8,000 shares annually. Additionally, participants are prohibited from purchasing shares through the Plan with an aggregate fair market value in excess of \$25,000 in any one calendar year.

Plan Administration All expenses for Plan administration are paid by the Company and are not reflected in the accompanying financial statements.

Table of Contents

2. TERMINATION OF THE PLAN

The Plan shall terminate at the earliest of the following:

December 1, 2012

The date of the filing of a Statement of Intent to Dissolve by the Company or the effective date of a merger or consolidation (except with a related company) where the Company is not to be the surviving corporation

The date the Board acts to terminate the Plan

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

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

3. PLAN ASSETS

The Plan's cash is managed by the Company on behalf of the Plan.

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Table of Contents

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.

Microsoft Corporation 2003 Employee Stock Purchase
Plan

/s/ J. Ritchie
J .Ritchie
GM, Compensation & Benefits
Date: March 28, 2008

Member of 2003 Employee Stock Purchase Plan
Committee

- 6 -