

MICROSOFT CORP  
Form 11-K  
June 29, 2010  
Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 11-K

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

For the fiscal year ended December 31, 2009

**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, 2009 and 2008, and the related statement of changes in net assets available for benefits for the year ended December 31, 2009 and schedules, 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.

**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.

Date: June 29, 2010

MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN

*/s/ Cleber Voelzke*  
Cleber Voelzke  
General Manager

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

*/s/ Hilda Quinones*  
Hilda Quinones  
Financial Controller

**Table of Contents**

**MICROSOFT CARIBBEAN, INC.**

**1165(e) RETIREMENT PLAN**

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND

2008 AND FOR THE YEAR ENDED DECEMBER 31, 2009,

SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009, AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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**Table of Contents**

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

**TABLE OF CONTENTS**

	<b>Page</b>
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	1
FINANCIAL STATEMENTS:	
<u>Statements of Net Assets Available for Benefits as of December 31, 2009 and 2008</u>	2
<u>Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2009</u>	3
<u>Notes to Financial Statements as of December 31, 2009 and 2008, and for the Year Ended December 31, 2009</u>	4 9
SUPPLEMENTAL SCHEDULES:	
<u>Form 5500, Schedule H, Part IV, Line 4i — Schedule of Assets (Held at End of Year) as of December 31, 2009</u>	10
<u>Form 5500, Schedule H, Part IV, Question 4j — Schedule of Reportable Transactions for the Year Ended December 31, 2009</u>	11
<u>Form 5500, Schedule H, Part IV, Question 4a — Delinquent Participant Contributions for the Year Ended December 31, 2009</u>	12
NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.	
EXHIBIT:	
<u>Consent of Deloitte &amp; Touche LLP</u>	13

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Trustee 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, 2009 and 2008, and the related statement of changes in net assets available for benefits for the year ended December 31, 2009. 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, 2009 and 2008, and the changes in net assets available for benefits for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of (1) assets (held at end of year) as of December 31, 2009, (2) transactions in excess of five percent of the current value of plan assets for the year ended December 31, 2009, and (3) delinquent participant contributions for the year ended December 31, 2009, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan s management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2009 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*/s/ DELOITTE & TOUCHE LLP*

San Juan, Puerto Rico  
June 29, 2010

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**Table of Contents**

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

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

**AS OF DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
INVESTMENTS At fair value	\$ 2,618,052	\$ 1,888,012
<b>CONTRIBUTIONS RECEIVABLE:</b>		
Participants	10,514	
Employer	4,572	
Total contributions receivable	15,086	
<b>INTEREST AND OTHER RECEIVABLES</b>	435	446
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 2,633,573</b>	<b>\$ 1,888,458</b>

See notes to financial statements.

**Table of Contents**

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

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

**FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>ADDITIONS:</b>		
Contributions:		
Participant contributions		\$ 228,532
Employer contributions		95,948
<b>Total contributions</b>		<b>324,480</b>
Net investment income:		
Interest and dividends		42,785
Net appreciation in fair value of investments		454,260
<b>Total investment income</b>		<b>497,045</b>
Total additions		821,525
<b>DEDUCTIONS</b>	Benefits paid to participants	(76,410)
<b>INCREASE IN NET ASSETS</b>		<b>745,115</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS:</b>		
Beginning of year		1,888,458
<b>End of year</b>		<b>\$ 2,633,573</b>

See notes to financial statements.



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**Table of Contents**

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

**NOTES TO FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2009 AND 2008, AND**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**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 10% of their pre-tax compensation, as defined, not exceeding 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.

**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** Upon 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.

## Table of Contents

### 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 accounting principles generally accepted in the United States of America 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, credit, 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, pursuant to the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*. 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 a measurement date. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Microsoft Corporation common stock is valued at the closing price reported on the NASDAQ Exchange on the last business day of the Plan year.

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 amounted to approximately \$49,000 at December 31, 2008. 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 Internal Revenue Code (IRC) limits. There were no such payables as of December 31, 2009 and 2008.

**New Accounting Standards Adopted** In April 2009, the FASB issued guidance related to disclosures on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and for disclosures on identifying transactions that are not orderly. The guidance expanded disclosures and required that major categories for debt and equity securities in the fair value hierarchy table be determined on the basis of the nature and risks of the investments.

## **Table of Contents**

In September 2009, the FASB issued guidance related to fair value measurements and disclosures for investments in certain entities that calculate net asset per share. The guidance expanded the disclosure about the nature and risks of investments within its scope and permits, as a practical, an entity holding investments in certain entities that calculate net asset value per share ( NAV ) or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV or its equivalent without adjustment. Disclosures are required to include the nature of any restrictions on a participant's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investee. The Plan adopted this guidance during the year ended December 31, 2009. Such adoption did not have a material impact on the Plan's fair value determination and disclosure of applicable investments. In addition, the adoption of this guidance did not have an effect on the Plan's financial statements.

**New Accounting Standard to Be Adopted** In January 2010, the FASB issued guidance related to 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 clarification of existing fair value disclosures. The guidance 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 is currently evaluating the impact this guidance will have on its financial statements.

**Subsequent Events** Management has evaluated subsequent events occurring between December 31, 2009 and the date the financial statements were issued, and there are none to report.

**Fair Value Measurements** FASB ASC No. 820, *Fair Value Measurements and Disclosures*, establishes 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC No. 820 are described as follows:

*Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

*Level 2* Inputs to the valuation methodology include:

quoted prices for similar assets or liabilities in active markets;

quoted prices for identical or similar assets or liabilities in inactive markets;

inputs other than quoted prices that are observable for the asset or liability;

inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Table of Contents**

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any 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, 2009 and 2008:

**Assets Measured at Fair Value at December 31, 2009**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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
Common stock	693,847			693,847
Time deposits	6			6
Total	\$ 2,618,052	\$	\$	\$ 2,618,052

**Assets Measured at Fair Value at December 31, 2008**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	\$ 1,411,237	\$	\$	\$ 1,411,237
Common stock	426,980			426,980
Time deposits	49,795			49,795
Total	\$ 1,888,012	\$	\$	\$ 1,888,012

**Table of Contents****3. INVESTMENTS**

The Plan's investments that represented 5% or more of the Plan's net assets available for benefits as of December 31, 2009 and 2008, are as follows:

	2009	2008
Microsoft Corporation common stock	\$ 693,847	\$ 426,980
AIM Basic Value A Fund	137,334	
Artio International Equity A Fund (formerly, Julius Baer Inv. Intl. Equity A fund)	296,379	188,257
T Rowe Price 2030 Retirement Fund	164,249	
Royce Pennsylvania Mutual Fund	139,470	95,480
Federated Trust U.S. Treasury Obligations Fund	847,905	876,922

During the year ended December 31, 2009, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Microsoft Corporation common stock	\$ 251,249
Fidelity Advisor Growth Fund	21,996
Artio International Equity A Fund (formerly, Julius Baer Inv. Intl. Equity A Fund)	37,620
Eaton Vance Large Cap Value Fund	1,603
AIM Basic Value Fund	42,898
Goldman Sachs Tr. Core Fixed Income A fund	7,645
T Rowe Price Growth Stk. Fund I Advisory Class	2,750
T Rowe Price 2050 Retirement Fund	10,144
T Rowe Price 2040 Retirement Fund	2,889
T Rowe Price 2030 Retirement Fund	31,487
T Rowe Price 2020 Retirement Fund	6,820
T Rowe Price 2010 Retirement Fund	587
Royce Pennsylvania Mutual Fund	36,423
Vanguard Bond Index Fund Inc.	149
Net appreciation in fair value of investments	\$ 454,260

**4. 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, 2009, amounted to approximately \$18,000.

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

At December 31, 2009 and 2008, the Plan held 22,764 and 21,964 shares, respectively, of common stock of Microsoft Corporation, the parent company of the Sponsor, with a cost basis of \$652,993 and \$638,349, respectively. During the year ended December 31, 2009, the Plan recorded dividend income of \$11,669 from Microsoft Corporation. In addition, the Plan has an interest bearing deposit with Banco Popular de Puerto Rico, the trustee for the Plan.

**Table of Contents**

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

Participant contributions for the payroll period ended May 31, 2009, amounting to \$7,793 were remitted by the Plan Sponsor to the trustee on June 18, 2009, which was later than required by the Department of Labor (DOL) Regulation 2510.3-102. At December 31, 2009, participant accounts were pending to be credited with the amount of investment income that would have been earned had the participant contributions been remitted on a timely basis, as required by DOL regulations.

**7. 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.

**8. 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.

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**Table of Contents****MICROSOFT CARIBBEAN, INC. 1165(e) RETIREMENT PLAN****FORM 5500, SCHEDULE H, PART IV, LINE 4i****SCHEDULE OF ASSETS (HELD AT END OF YEAR)****AS OF DECEMBER 31, 2009**

(a)	(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, and Par or Maturity Value	(d) Cost	(e) Current Value
*	Microsoft Corporation	Common stock	**	\$ 693,847
	Fidelity Advisor Growth Fund	Registered Investment Company	**	101,640
	Artio International Equity A Fund (formerly, Julius Baer Invt. Intl. Equity A fund)	Registered Investment Company	**	296,379
	Eaton Vance Large Cap Value Fund	Registered Investment Company	**	9,593
	AIM Basic Value A Fund	Registered Investment Company	**	137,334
	Goldman Sachs Tr. Core Fixed Income A Fund	Registered Investment Company	**	74,810
	T Rowe Growth Stk. Fund I Advisory Class	Registered Investment Company	**	15,032
	T Rowe Price 2050 Retirement Fund	Registered Investment Company	**	56,287
	T Rowe Price 2040 Retirement Fund	Registered Investment Company	**	17,445
	T Rowe Price 2030 Retirement Fund	Registered Investment Company	**	164,249
	T Rowe Price 2020 Retirement Fund	Registered Investment Company	**	51,705
	T Rowe Price 2010 Retirement Fund	Registered Investment Company	**	3,725
	Royce Pennsylvania Mutual Fund	Registered Investment Company	**	139,470
	Vanguard Bond Index Fund, Inc.	Registered Investment Company	**	8,625
	Federated Trust U.S. Treasury Obligations Fund	Registered Investment Company	**	847,905
*	Banco Popular de Puerto Rico	Time deposits, bearing interest at .233% at December 31, 2009	**	6
	<b>Total</b>			<b>\$ 2,618,052</b>

\* Party-in-interest.

\*\* Cost information is not required for participant-directed investments and therefore is not included.

**Table of Contents**

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

**FORM 5500, SCHEDULE H, PART IV, LINE 4j**

**SCHEDULE OF REPORTABLE TRANSACTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Identity of Party Involved</b>	<b>Description of Asset</b>	<b>Purchase Price</b>	<b>Selling Price</b>	<b>Cost of Asset</b>	<b>Current Value of Asset on Transaction Date</b>	<b>Net Gain (Loss)</b>
<b>SINGLE TRANSACTIONS</b>						
None						
<b>SERIES IN SAME SECURITY</b>						
T Rowe Price Retirement 2030 Fund	Registered Investment Company	\$ 116,152	\$	\$ 116,152	\$ 116,152	\$
Banco Popular *	Time Deposits	337,344		337,344	337,344	
Banco Popular *	Time Deposits		(387,133)	(387,133)	(387,133)	

\* Party-in-interest.



**Table of Contents**

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

**FORM 5500, SCHEDULE H, PART IV, QUESTION 4a**

**DELINQUENT PARTICIPANT CONTRIBUTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

Question 4a Did the employer fail to transmit to the Plan any participant contributions

within the time period described in 29 CFR 2510.3-102, was answered yes.

Identity of Party	Relationship to Plan, Employer, or Other Party-In-Interest	Description of Transactions	Amount
Involved Microsoft Caribbean Inc.	Employer/Plan Sponsor	Participant contributions for the payroll period ended May 31, 2009, were not funded within the maximum period of time allowed by the Department of Labor Regulation 2510.3-102. At December 31, 2009, the related participant accounts were pending to be credited with the amount of investment income that would have been earned had the participant contributions been remitted on a timely basis	\$ 7,793

**Table of Contents**

**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, 2010, relating to the financial statements and supplemental schedules 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, 2009.

*/s/ DELOITTE & TOUCHE LLP*

San Juan, Puerto Rico  
June 29, 2010

Stamp No.

affixed to original.