

MICROSOFT CORP  
Form DEF 14A  
September 20, 2004

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. \_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement

- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Microsoft Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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No fee required.

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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# 2004 PROXY STATEMENT

## ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Microsoft Corporation will be held at the

### **MEYDENBAUER CENTER**

11100 NE 6th Street

Bellevue, Washington

on November 9, 2004, at 8:00 A.M.

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## PROXY VOTING OPTIONS

### **YOUR VOTE IS IMPORTANT!**

Whether or not you expect to attend in person, we urge you to vote your shares by phone, via the Internet, or by signing, dating, and returning the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares will save the Company the expense and extra work of additional solicitation. An addressed envelope for which no postage is required if mailed in the United States is enclosed if you wish to vote your shares by mail. Submitting your proxy now will not prevent you from voting your stock at the meeting if you desire to do so, as your vote by proxy is revocable at your option.

Voting by the **Internet** or **telephone** is fast, convenient, and your vote is immediately confirmed and tabulated. Most important, by using the Internet or telephone, you help Microsoft reduce postage and proxy tabulation costs.

Or, if you prefer, you can return the enclosed proxy card in the envelope provided.

**PLEASE DO NOT RETURN THE ENCLOSED PAPER BALLOT IF YOU ARE VOTING OVER THE INTERNET OR BY TELEPHONE.**

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VOTE BY INTERNET

**<http://www.eproxy.com/msft>**

24 hours a day / 7 days a week

VOTE BY TELEPHONE

**(800) 435-6710 via touch tone phone**

toll-free 24 hours a day / 7 days a week

**INSTRUCTIONS:**

Read the accompanying Proxy Statement.

Go to the following website:

**<http://www.eproxy.com/msft>**

Have your proxy card in hand and follow the instructions. You can also register to receive all future shareholder communications electronically, instead of in print. This means that the annual report, proxy statement, and other correspondence will be delivered to you electronically via e-mail.

**INSTRUCTIONS:**

Read the accompanying Proxy Statement.

**Call toll-free (800) 435-6710.**

Have your proxy card in hand and follow the instructions.

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# 2004 PROXY STATEMENT

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## ANNUAL MEETING OF SHAREHOLDERS

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**MEYDENBAUER CENTER**

11100 NE 6th Street

Bellevue, Washington 98004

on November 9, 2004, at 8:00 A.M.

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# 2004 PROXY STATEMENT

## ANNUAL MEETING OF SHAREHOLDERS

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Voting by the **Internet** or **telephone** is fast, convenient, and your vote is immediately confirmed and tabulated. Most important, by using the Internet or telephone, you help Microsoft reduce postage and proxy tabulation costs.

Or, if you prefer, you can return the enclosed Voting Instruction Form in the envelope provided.

**PLEASE DO NOT RETURN THE ENCLOSED PAPER BALLOT IF YOU ARE VOTING OVER THE INTERNET OR BY TELEPHONE.**

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VOTE BY INTERNET

VOTE BY TELEPHONE

<http://www.proxyvote.com/>

**1-800-454-8683 via touch tone phone**

24 hours a day / 7 days a week

toll-free 24 hours a day / 7 days a week

**INSTRUCTIONS:**

**INSTRUCTIONS:**

Read the accompanying Proxy Statement.

Read the accompanying Proxy Statement.

Go to the following website

**Call the 800 toll-free number provided on your Voting Instruction Form or 1-800-454-8683.**

<http://www.proxyvote.com/>

Have your Voting Instruction Form in hand and follow the instructions. You can also register to receive all future shareholder communications electronically, instead of in print. This means that the annual report and proxy statement will be delivered to you electronically via e-mail.

Have your Voting Instruction Form in hand and follow the instructions.

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PARKING FACILITY AND DRIVING DIRECTIONS

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**DRIVING DIRECTIONS**

**From Seattle via SR-520:**

Take SR-520 east to I-405 south.

Take Exit 13B west onto NE 8th to 110th Avenue NE.

Turn left onto 110th to NE 6th Street.

Turn left onto NE 6th Street to Meydenbauer Center's parking garage.

**From Seattle via I-90:**

Take I-90 east to I-405 north.

Take Exit 12 for the SE 8th Street exit and stay right.

At the stoplight, go left onto SE 8th Street.

Turn right onto 112th Avenue NE.

Turn left onto NE 6th Street to Meydenbauer Center's parking garage.

**PARKING**

Due to limited parking availability, we encourage you to explore Metro's commuter services. The Bellevue Transit Center is conveniently located less than a block from Meydenbauer Center.

Parking validation for the Meydenbauer Center garage will be available at the meeting.



September 29, 2004

**Dear Shareholder:**

You are cordially invited to attend the annual meeting of shareholders of Microsoft Corporation, which will be held at the Meydenbauer Center, 11100 NE 6th Street, Bellevue, Washington 98004, on November 9, 2004, at 8:00 a.m. Driving directions to the Meydenbauer Center can be found on the inside front cover of this document. Parking will be validated only for the Meydenbauer Center garage. Please note that parking is limited, so plan ahead if you are driving to the meeting.

Details of the business to be conducted at the annual meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

You will notice in reading the proxy statement that Wm. G. Reed, Jr., a director of the Company since 1987, is retiring from the Board of Directors and hence, not standing for re-election. We want to express our deep appreciation to Gary for his valuable contributions to Microsoft during his 17 years of service.

Whether or not you attend the annual meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to promptly vote and submit your proxy by phone, via the Internet, or by signing, dating, and returning the enclosed proxy card in the enclosed envelope. If you decide to attend the annual meeting, you will be able to vote in person, even if you have previously submitted your proxy.

We will provide live coverage of the annual meeting from the Microsoft Investor Relations website at [www.microsoft.com/msft](http://www.microsoft.com/msft). Additionally, the transcript along with video and audio of the entire annual meeting of shareholders will be available on the Investor Relations website after the meeting. We hope this will allow those of you who are unable to attend the meeting to hear Microsoft executives discuss the year's results.

On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in the affairs of the Company. I look forward to greeting as many of our shareholders as possible.

Sincerely,

**Steven A. Ballmer**

Chief Executive Officer

The use of cameras is prohibited and they will not be allowed into the meeting or any other related areas, except by credentialed media. We realize that many cellular phones have built-in digital cameras, and while these phones may be brought into the venue, the camera function may not be used at any time.

2004 PROXY  
STATEMENT

MICROSOFT CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

November 9, 2004

**To the Shareholders:**

The annual meeting of the shareholders of Microsoft Corporation will be held at the Meydenbauer Center, 11100

NE 6th Street, Bellevue, Washington 98004, on November 9, 2004, at 8:00 a.m. for the following purposes:

1. To elect directors.
2. To consider and vote upon proposed amendments to the 2001 Stock Plan and the 1991 Stock Option Plan.
3. To consider and vote upon proposed amendments to the 1999 Stock Plan for Non-Employee Directors, the Stock Option Plan for Non-Employee Directors, and the Stock Option Plan for Consultants and Advisors.
4. To consider and vote upon the material terms of the performance criteria for awards under the 2001 Stock Plan.
5. To ratify the selection of Deloitte & Touche LLP as the Company's independent auditor for fiscal year 2005.
6. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on September 10, 2004, are entitled to notice of, and to vote at, this meeting.

**By order of the Board of Directors**

**Bradford L. Smith**

Secretary

Redmond, Washington

September 29, 2004

**IMPORTANT**

Whether or not you expect to attend in person, we urge you to vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares by telephone, via the Internet, or by signing, dating, and returning the enclosed proxy card will save the Company the expenses and extra work of additional solicitation. An addressed envelope for which no postage is required if mailed in the United States is enclosed if you wish to vote by mail. Submitting your proxy now will not prevent you from voting your shares at the meeting if you desire to do so, as your proxy is revocable at your option.

2004 PROXY  
STATEMENT

MICROSOFT CORPORATION  
ONE MICROSOFT WAY  
REDMOND, WASHINGTON 98052

## PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD NOVEMBER 9, 2004

This Proxy Statement, which was first mailed to shareholders on or about September 29, 2004, is furnished in connection with the solicitation of proxies by the Board of Directors of Microsoft Corporation (the Company or Microsoft), to be voted at the annual meeting of the shareholders of the Company, which will be held at 8:00 a.m. on November 9, 2004, at the Meydenbauer Center, 11100 NE 6th Street, Bellevue, Washington 98004, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Shareholders who execute proxies retain the right to revoke them at any time before the shares are voted by proxy at the meeting. A shareholder may revoke a proxy by delivering a signed statement to the Secretary of the Company at or prior to the annual meeting or by executing and delivering another proxy dated as of a later date. The Company will pay the cost of solicitation of proxies.

Shareholders of record at the close of business on September 10, 2004 will be entitled to vote at the meeting on the basis of one vote for each share held. On September 10, 2004, there were 10,880,648,840 shares of common stock outstanding, held of record by 143,122 shareholders.

### 1. ELECTION OF DIRECTORS AND MANAGEMENT INFORMATION

The Company's Board of Directors currently consists of ten members. Wm. G. Reed, Jr., a director of the Company since 1987, is retiring from the Board effective as of the date of the annual meeting. In connection with the retirement of Mr. Reed, the Board of Directors has authorized a reduction in the size of the Board to nine members effective as of November 9, 2004, as permitted by the Company's Bylaws.

Nine directors are to be elected at the annual meeting to hold office until the next annual meeting of shareholders and until their successors are elected and qualified. The accompanying proxy will be voted in favor of the following persons to serve as directors unless the shareholder indicates to the contrary on the proxy. The election of the Company's directors requires a plurality of the votes cast in person or by proxy at the meeting. Management expects that each of the nominees will be available for election, but if any of them is unable to serve at the time the election occurs, the proxy will be voted for the election of another nominee to be designated by the Board of Directors.

### **NOMINEES**

William H. Gates III, 48, as a co-founder of the Company, has served as Chairman since the Company's incorporation in 1981. Mr. Gates served as the Company's Chief Executive Officer from 1981 until January 2000, when he resigned as Chief Executive Officer and assumed the position of Chief Software Architect. Mr. Gates is also a director of ICOS Corporation.

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Steven A. Ballmer, 48, has headed several Microsoft divisions during the past 20 years, including operations, operating systems development, and sales and support. In July 1998, he was promoted to president, a role that gave him day-to-day responsibility for running Microsoft. He was named Chief Executive Officer in January 2000, assuming full management responsibility for the Company. Mr. Ballmer is also a director of Accenture Ltd.

James I. Cash Jr., Ph.D., 56, has been a director of the Company since May 2001. Dr. Cash is formerly The James E. Robison Professor of Business Administration at Harvard Business School, where he also served as Senior Associate Dean and Chairman of HBS Publishing. Dr. Cash is also a member of the board of directors of The Chubb Corporation, General Electric Company, Phase Forward Incorporated and Scientific-Atlanta, Inc.

Raymond V. Gilmartin, 63, has been a director of the Company since April 2001. Mr. Gilmartin has been the Chairman of the Board, President and Chief Executive Officer of Merck & Co., Inc. since 1994. Prior to joining Merck, Mr. Gilmartin was Chairman, President and Chief Executive Officer of Becton Dickinson and Company. He joined that company in 1976 as Vice President, Corporate Planning, taking on positions of increasing responsibility over the next 18 years. Mr. Gilmartin also serves on the board of directors of General Mills, Inc.

Ann McLaughlin Korologos, 62, has been a director of the Company since January 2000. Mrs. Korologos serves as Senior Advisor with Benedetto, Gartland & Co., Inc., a private investment banking company. Mrs. Korologos served as the United States Secretary of Labor from 1987 to 1989. She currently serves as a member of the board of directors of AMR Corporation (and its subsidiary, American Airlines), Fannie Mae, Harman International Industries, Inc., Host Marriott Corporation, and Kellogg Company.

David F. Marquardt, 55, has served as a director of the Company since 1981. Mr. Marquardt is a founding general partner of August Capital, a venture capital firm formed in 1995, and has been a general partner of various Technology Venture Investors entities, which are private venture capital limited partnerships, since August 1980. He is a director of Netopia, Inc., Seagate Technology, Inc., Tumbleweed Communications Corp. Inc., and various privately held companies.

Charles H. Noski, 52, has served as a director of the Company since 2003. Mr. Noski has been Corporate Vice President and Chief Financial Officer of Northrop Grumman Corporation since December 2003. Mr. Noski joined AT&T in 1999 as Senior Executive Vice President and Chief Financial Officer and was named Vice Chairman of AT&T's Board of Directors in 2002. Mr. Noski retired from AT&T upon the completion of its restructuring in November 2002. Prior to joining AT&T, Mr. Noski was President, Chief Operating Officer, and a member of the board of directors of Hughes Electronics Corporation, a publicly-traded subsidiary of General Motors Corporation in the satellite and wireless communications business. He is a member of the American Institute of Certified Public Accountants and a past member of the Financial Accounting Standards Advisory Council. Mr. Noski is also a director of Northrop Grumman Corporation.

Dr. Helmut Panke, 58, has served as a director of the Company since 2003. Dr. Panke has been with BMW Bayerische Motoren Werke AG since 1982 in a variety of positions and, since May 2002, has served as Chairman of the Board of Management. From 1999 to 2002, he served as Member of the Board of Management for Finance. From 1996 to 1999, Dr. Panke was Member of the Board of Management for Human Resources and Information Technology. In his role as Chairman and CEO of BMW (US) Holding Corp. from 1993 to 1996, he was responsible for the company's North American activities.

Jon A. Shirley, 66, served as President and Chief Operating Officer of Microsoft from 1983 to 1990. He has been a director of the Company since 1983. Prior to joining Microsoft, Mr. Shirley was with Tandy Corporation in a variety of positions.

#### **RETIRING DIRECTOR**

Wm. G. Reed Jr., 65, has been a director of the Company since 1987. Mr. Reed served as Chairman of Simpson Timber Company, a forest products company, from 1971 to 1986, and as Chairman of Simpson Investment Company from 1986 to 1996. He is also a director of PACCAR, Inc., Safeco Corporation, and Washington Mutual, Inc.

#### **INFORMATION ABOUT THE BOARD AND ITS COMMITTEES**

The system of governance practices followed by the Company is memorialized in the Microsoft Corporation Corporate Governance Guidelines and the charters of the five committees of the Board of Directors. The Governance Guidelines and charters are intended to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations and to make decisions that are independent of the Company's management. The Governance Guidelines also are intended to align the interests of directors and management with those of Microsoft's shareholders. The Governance Guidelines establish the practices the Board will follow with respect to board composition and selection, board meetings and involvement of senior management, chief executive officer performance evaluation, succession planning, board committees, and director compensation. The Board annually conducts a self-evaluation to assess compliance with the Governance Guidelines and identify opportunities to improve Board performance.

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The Governance Guidelines and committee charters are reviewed periodically and updated as necessary to reflect changes in regulatory requirements and evolving oversight practices. The Governance Guidelines were most recently modified by the Board effective July 1, 2004 to, among other things, comply with corporate governance requirements contained in both the Nasdaq Stock Market ( Nasdaq ) and New York Stock Exchange listing standards and make other enhancements to the Company s corporate governance policies, including creating the role of lead independent director. The chair of the Governance and Nominating Committee serves as the lead independent director. The lead independent director is responsible for coordinating the activities of the non-management directors, coordinate with the Chairman to set the agenda for Board meetings, chairing meetings of the non-management directors, and leading



the Board's review of the chief executive officer. The Board has five committees: an Audit Committee, a Compensation Committee, a Finance Committee, a Governance and Nominating Committee, and an Antitrust Compliance Committee. The Governance Guidelines, as well as the Charter for each committee of the Board, may be viewed at [www.microsoft.com/msft/corpinfo.mspx](http://www.microsoft.com/msft/corpinfo.mspx).

The Board of Directors holds regularly scheduled quarterly meetings. Typically, committee meetings occur the day prior to the board meeting. One quarter each year, the committee and board meetings occur on a single day so that the evening and following day can be devoted to presentations and discussions with senior management about long term Company strategy as part of the Board's annual retreat. In addition to the quarterly meetings, typically there are two other regularly scheduled meetings and several special meetings each year. At each quarterly board meeting, time is set aside for the non-management directors to meet without management present. The Board of Directors met nine times during the last fiscal year. All directors attended 75% or more of the Board meetings and meetings of the committees on which they served during fiscal year 2004. Directors are encouraged to attend the annual meeting of shareholders. Five directors attended the 2003 annual meeting.

The table below provides current membership and meeting information for each of the Board committees for the fiscal year. Committee memberships changed during the fiscal year. Following the election of directors at the Company's annual meeting in November 2003, Mr. Shirley stepped down from and Mr. Noski was appointed to the Audit Committee, Mrs. Korologos stepped down from and Mr. Noski was appointed to the Finance Committee, Mr. Gilmartin stepped down from and Dr. Panke was appointed to the Compensation Committee, and Dr. Cash stepped down from and Mr. Marquardt was appointed to the Governance and Nominating Committee.

Name	Audit	Compensation	Finance	Governance & Nominating	Antitrust Compliance
Mr. Gates					
Mr. Ballmer					
Dr. Cash	X				X*
Mr. Gilmartin				X*	X
Mrs. Korologos		X*			X
Mr. Marquardt			X	X	
Mr. Noski	X		X		
Dr. Panke		X			
Mr. Reed	X*	X			
Mr. Shirley			X*		
Total meetings in fiscal year 2004	8	6	4	3	4

\* Committee Chairperson

Below is a description of each committee of the Board of Directors. Each of the committees has authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the standards of independence under the Governance Guidelines and applicable Nasdaq listing standards, including that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment.

**Audit Committee:** The Audit Committee assists the Board of Directors in its oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company. The Audit Committee's role includes overseeing the work of the Company's internal accounting and auditing processes and discussing with management the Company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor engaged to prepare or issue

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audit reports on the financial statements of the Company. The Audit Committee relies on the expertise and knowledge of management, the internal auditors, and the independent auditor in carrying out its oversight responsibilities. The Committee's specific responsibilities are delineated in the Audit Committee Responsibilities Calendar accompanying the Audit Committee Charter. The Charter and Responsibilities Calendar are attached as Exhibit 1 to this Proxy Statement. The Board of Directors has determined that each Audit Committee member has sufficient knowledge in financial and auditing matters to serve on

the Committee. In addition, the Board has determined that Charles H. Noski is an audit committee financial expert as defined by Securities and Exchange Commission ( SEC ) rules.

Compensation Committee: The primary responsibilities of the Compensation Committee are: (a) In conjunction with the lead independent director, review and approve the annual goals and objectives of the chairman and chief executive officer and evaluate performance against those goals and objectives; (b) approve the compensation of the chairman and chief executive officer; (c) oversee the performance evaluation of the Company's other executive officers and approve their compensation; (d) oversee and advise the Board on the adoption of policies that govern the Company's compensation programs; (e) oversee the Company's administration of its equity-based compensation and other benefit plans; and (f) approve grants of equity compensation awards under the Company's stock plans. The Compensation Committee's role includes producing the report on executive compensation required by SEC rules and regulations. The specific responsibilities and functions of the Compensation Committee are delineated in the Compensation Committee Charter.

Finance Committee: The Finance Committee is responsible for overseeing and making recommendations to the Board about the financial affairs and policies of the Company including: (a) Policies relating to the Company's cash flow, cash management and working capital, shareholder dividends and distributions, and share repurchases and investments; (b) financial strategies; (c) policies for managing financial risk; (d) tax planning and compliance; and (e) proposed mergers, acquisitions, divestitures, and strategic investments. The Finance Committee's role includes designating officers and employees who can execute documents and act on behalf of the Company in the ordinary course of business under previously approved banking, borrowing, and other financing agreements. The specific responsibilities and functions of the Finance Committee are delineated in the Finance Committee Charter.

Governance and Nominating Committee: The principal responsibilities of the Governance and Nominating Committee are to: (a) Determine the slate of director nominees for election to the Company's Board of Directors; (b) identify and recommend candidates to fill vacancies occurring between annual shareholder meetings; (c) review the composition of Board committees; (d) monitor compliance with, review, and recommend changes to the Company's Corporate Governance Guidelines; and (e) review the Company's policies and programs that relate to matters of corporate responsibility, including public issues of significance to the Company and its stakeholders. The Governance and Nominating Committee's role includes periodically reviewing the compensation paid to non-employee directors, and making recommendations to the Board for any adjustments. In addition, the Chair of the Governance and Nominating Committee acts as the lead independent director and is responsible for leading the Board of Directors' annual review of the chief executive officer's performance. The Governance and Nominating Committee regularly reviews the charters of Board committees and, after consultation with the respective committee chairs, makes recommendations, if necessary, about changes to the charters. The specific responsibilities and functions of the Governance and Nominating Committee are delineated in the Governance and Nominating Committee Charter.

The Governance and Nominating Committee annually reviews with the Board the applicable skills and characteristics required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Nominating Committee considers, among other things, the qualifications of individual director candidates. The Governance and Nominating Committee works with the Board to determine the appropriate characteristics, skills, and experiences for the Board as a whole and its individual members with the objective of having a Board with diverse backgrounds and experience in business, government, education, and public service. In evaluating the suitability of individual Board members, the Board takes into account many factors, including general understanding of marketing, finance, and other disciplines relevant to the success of a large publicly traded company in today's business environment; understanding of the Company's business and technology; educational and professional background; and personal accomplishment. The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the Company's business and represent shareholder interests through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a director for re-election, the Governance and Nominating Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

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The Committee will consider shareholder recommendations for candidates for the Board. The name of any recommended candidate for director, together with a brief biographical sketch, a document indicating the candidate's willingness to serve, if elected, and evidence of the nominating shareholder's ownership of Company stock should be sent to the attention of the Deputy General Counsel, Finance and Operations, of the Company.

**Antitrust Compliance Committee:** The Antitrust Compliance Committee oversees the performance of the Compliance Officer, who is charged under the Final Judgment entered by the District Court for the District of Columbia in *State of New York et al. v. Microsoft Corp.*, No. 98-1232 (the Final Judgment) with developing and supervising Microsoft's internal programs and processes to ensure compliance with antitrust laws and the Final Judgment. The Compliance Officer reports directly to the Antitrust Compliance Committee and the Chief Executive Officer, and may be removed by the Chief Executive Officer only with the concurrence of the Committee. The specific responsibilities in carrying out the Antitrust Compliance Committee's oversight role are delineated in the Antitrust Compliance Committee Responsibilities Checklist attached to the Antitrust Compliance Committee Charter. The Compliance Officer is required to maintain a record of complaints received and actions taken by the Company with respect to them and to report credible evidence of violations of the Final Judgment to the Final Judgment plaintiffs. The Antitrust Compliance Committee receives regular reports from the Compliance Officer about existing and planned internal compliance programs and processes, complaints received and the Company's response to them, and violations reported to the Final Judgment plaintiffs. In addition, the Antitrust Compliance Committee receives reports from the General Counsel and from other members of management about compliance with the Final Judgment and about other issues that may arise concerning the Company's compliance with antitrust and competition laws. The Antitrust Compliance Committee can authorize further inquiries into matters reported to it for the purpose of ensuring the adequacy of the Company's processes and programs for fulfilling its obligations under the Final Judgment and antitrust laws. The Antitrust Compliance Committee provides guidance to the Compliance Officer and to management and reports regularly to the Board of Directors.

**Director Compensation.** Messrs. Gates and Ballmer receive no compensation for serving as directors, except that they, like all directors, are eligible to receive reimbursement of any expenses incurred in attending Board and committee meetings. During fiscal year 2004, each director, other than Messrs. Gates and Ballmer, received compensation for serving on the Board of Directors and committees of the Board as follows:

An annual retainer of \$50,000;  
for each Board Committee chair, an annual retainer of \$10,000;  
a per meeting fee of \$1,000 for attendance at special meetings of Board Committees; and  
a stock award grant for 4,000 shares, which vests over 5 years.

In fiscal year 2004, there was one special meeting of the Antitrust Compliance Committee and one special meeting of the Compensation Committee, which was attended by each member, and for which each member was paid the per meeting fee of \$1,000.

### **Shareholder Communications to the Board**

Shareholders may contact an individual director, the lead independent director, the Board as a group, or a specified Board committee or group, including the non-employee directors as a group, by the following means:

Mail: Microsoft Corporation  
One Microsoft Way  
Redmond, WA 98052-6399  
Attn: Board of Directors

Email: [askboard@microsoft.com](mailto:askboard@microsoft.com)

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Each communication should specify the applicable addressee or addressees to be contacted as well as the general topic of the communication. The Company will initially receive and process communications before forwarding them to the addressee. The Company generally will not forward to the directors a shareholder communication that it determines to be primarily commercial in nature or relates to an improper or irrelevant topic, or that requests general information about the Company.

Concerns about accounting or auditing matters or possible violations of the Microsoft Standards of Business Conduct should be reported pursuant to the procedures outlined in the Standards of Business Conduct, which are available on the Company's website at [www.microsoft.com/mscorp/legal/buscond/](http://www.microsoft.com/mscorp/legal/buscond/).

INFORMATION REGARDING BENEFICIAL OWNERSHIP  
OF PRINCIPAL SHAREHOLDERS, DIRECTORS, AND MANAGEMENT

The following table sets forth, as of September 10, 2004, information regarding the beneficial ownership of the Company's common shares by all directors, the Company's Chief Executive Officer and the four other highest paid executive officers (the "Named Executive Officers"), and the directors and executive officers as a group.

Names	Amount and Nature of Beneficial Ownership of Common Shares as of 9/10/2004 <sup>(1)</sup>	Percent of Class
William H. Gates III	1,097,499,336 <sup>(2)(3)</sup>	10.09%
Steven A. Ballmer	410,967,990	3.78%
James I. Cash Jr.	41,700 <sup>(4)</sup>	*
Raymond V. Gilmartin	31,500 <sup>(5)</sup>	*
Ann McLaughlin Korologos	62,000 <sup>(6)</sup>	*
David F. Marquardt	2,429,118 <sup>(7)</sup>	*
Charles H. Noski	5,136 <sup>(8)</sup>	*
Helmut Panke	650	*
Wm. G. Reed Jr.	1,263,744 <sup>(9)</sup>	*
Jon A. Shirley	3,771,690 <sup>(10)</sup>	*
James E. Allchin	1,584,096 <sup>(11)</sup>	*
Kevin R. Johnson	438,467 <sup>(12)</sup>	*
Jeffrey S. Raikes	15,013,396 <sup>(13)</sup>	*
Executive Officers, Directors as a group (24 persons)	1,557,236,763 <sup>(14)</sup>	14.27%

\* Less than 1%

- (1) Beneficial ownership represents sole voting and investment power. To the Company's knowledge, Mr. Gates was the only shareholder who beneficially owned more than 5% of the outstanding common shares as of September 10, 2004.
- (2) The business address for Mr. Gates is: Microsoft Corporation, One Microsoft Way, Redmond, Washington 98052.
- (3) Excludes 428,520 shares held by Mr. Gates' wife, as to which he disclaims beneficial ownership.
- (4) Includes 27,500 options to purchase Company stock exercisable within sixty days of September 10, 2004 ( "Vested Options" ), and excludes 200 shares held in an account for the benefit of Dr. Cash's nephew, as to which he disclaims beneficial ownership.
- (5) Includes 27,500 Vested Options, and excludes 1,200 shares held by Mr. Gilmartin's wife, as to which he disclaims beneficial ownership.
- (6) Includes 60,000 Vested Options.
- (7) Includes 300,000 Vested Options.
- (8) Includes 1,400 shares held in trusts for two of Mr. Noski's minor children.
- (9) Includes 1,022,000 shares and 20,000 Vested Options held by Riviera LLC, a family limited liability company of which Mr. Reed and his wife own a majority of the membership units, and 40,000 Vested Options held by Mr. Reed directly.
- (10) Includes 1,308,940 shares held by the Shirley Family Limited Partnership, a limited partnership of which Mr. Shirley is the president of the sole general partner, and 60,000 Vested Options.
- (11) Includes 1,575,000 Vested Options.
- (12) Includes 426,900 Vested Options.
- (13) Includes 6,575,000 Vested Options.
- (14) Includes 30,423,162 Vested Options.





INFORMATION REGARDING EXECUTIVE OFFICER COMPENSATION

The following table discloses compensation received for the three fiscal years ended June 30, 2004 by the Named Executive Officers.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		All Other Compensation <sup>(2)</sup>
		Salary	Bonus <sup>(1)</sup>	Restricted	Securities	
				Stock	Underlying	
				Award(s) (\$)	Options (#)	
Steven A. Ballmer	2004	\$ 591,667	\$ 310,000			\$ 7,865
Chief Executive Officer; Director	2003	550,000	313,447			7,667
	2002	545,833	205,810			7,167
William H. Gates III						
Chairman; Chief Software Architect; Director	2004					
	2003					
	2002	591,667				