

Notice to Employees of Microsoft Corporation:

Application for Department of Labor Authorization - Prohibited Transaction Exemption 96-62 (as Amended)

You are hereby notified that Microsoft Corporation ("Microsoft") and Orcas Ltd. ("Orcas"), a captive insurance company wholly owned by Microsoft, have applied to the U.S. Department of Labor ("DOL") for authorization of a reinsurance transaction. The transaction involves the reinsurance of risks and the receipt of premiums by Orcas from an insurance contract currently funding group Long-Term Disability ("LTD") insurance benefits offered under the Microsoft Corporation Welfare Plan (the "Plan"). The authorization is necessary because Orcas is an affiliate of Microsoft, and, as a consequence of this relationship between Orcas and Microsoft, such reinsurance might otherwise constitute a prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This notice is being provided to all "interested persons", i.e., all active, full-time Microsoft US employees, and it (1) informs you of the application to the DOL, (2) summarizes certain improvements to the benefits offered under the Plan, and (3) describes your right to comment to the DOL about the proposed transaction.

Overview

The Plan's current benefits will continue to be insured with the Prudential Insurance Company of America ("Prudential"). Prudential will reinsure the risks with Orcas. The Plan Administrator of the Plan has determined that the transaction is in the best interest of the participants and beneficiaries of the Plan because of benefit improvements that will be provided to them if the transaction is authorized by the DOL. The DOL authorization will be subject to the conditions described below and set forth in more detail in Exhibit A.

We would like to emphasize that Prudential will continue to insure the benefits provided to you under the Plan; this fact will not be affected by the reinsurance transaction. The reinsurance arrangement is simply an internal arrangement between Orcas and Prudential.

Parties to the Proposed Reinsurance Transaction

Microsoft

Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399
EIN 91-1144442

Orcas

Orcas Ltd. (Vermont Branch)
Chartis Insurance Management Services
30 Main Street, Suite 330
P.O. Box 1687
Burlington, Vermont 05402-1687

EIN 91-1144442

Orcas is a wholly owned subsidiary of Microsoft. Orcas was incorporated on June 2, 1998, and commenced operations on June 12, 1998. Since February 6, 2001, Orcas has had a Certificate of Registration, issued in accordance with Bermuda's Insurance Act of 1978, as a "Class 3 Insurer." Pursuant to its licensure as a "Class 3 Insurer", Orcas is empowered to, *inter alia*, reinsure employee benefits risks. Currently, Orcas underwrites a portfolio of property and liability risks for Microsoft.

Orcas has established a branch in Vermont. Pursuant to the Certificate of Authority issued by Vermont's Commissioner of the Department of Banking, Insurance, Securities, and Health Care Administration, Orcas is licensed to reinsure employee benefit programs in the state of Vermont.

The Plan

The transactions will involve the reinsurance of a group Long-Term Disability ("LTD") policy of the Microsoft Corporation Welfare Plan (the "Plan"), which is an employee welfare benefit plan under Section 3(1) of ERISA. Microsoft sponsors the Plan, which covers US full-time employees of Microsoft and its subsidiaries. The LTD benefits provided by the Plan are fully insured by Prudential. The Plan's identifying number for DOL reporting purposes is number 501.

Changes to the Plan

Microsoft desires to utilize Orcas for the reinsurance of employee benefits and will make improvements, described below, to the Plan if the DOL authorization is granted. Prudential will continue to insure the Plan's current benefits, as well as a number of the benefit improvements described below. However, Prudential will reinsure the Plan risks with Orcas. The following benefit improvements are intended to become effective as soon as practicable following the transaction's approval by the DOL.

COMPANY-PROVIDED BENEFIT ENHANCEMENTS

LTD enhancements, provided for entirely by Microsoft for its employees, will be as follows:

First Enhancement-Accelerated Death Benefit for LTD Coverage

Currently, the LTD plan contains a survivor benefit which pays an amount equal to 6 months' benefits in the event of a claimant's death. The enhancement to the LTD program, which is expressly conditioned on the implementation of the proposed transaction, would allow the claimant access to the survivor benefit while the claimant is still alive, if the claimant were terminally ill. There is no addition cost or obligation of any kind that would be imposed upon Plan participants to obtain this additional benefit.

Thus, under the enhancement, the claimant may elect to receive the survivor benefit prior to death under the following circumstances:

- Claimant is a terminally ill employee; and is receiving monthly LTD payments;
- Claimant elects this option in writing in a form that satisfies the insurance carrier;
- Claimant provides proof of terminal illness, including medical certification that life expectancy does not exceed 6 months;
- Claimant's LTD coverage is not assigned, and the enhanced benefit is elected only on a voluntary basis. This means: (a) if claimant is required by law to use this option to meet the claims of creditors, whether in bankruptcy or otherwise, claimant is not eligible for this benefit; (b) if claimant is required by a government agency to use this option in order to apply for, get or keep a government benefit or entitlement, claimant is not eligible for this benefit.
- Claimant elects his accelerated payout only once during his or her lifetime.

If claimant elects to receive this benefit prior to death, then no survivor benefit will be paid upon death.

Second Enhancement – Increase Rehabilitation Benefit

Currently, the LTD plan provides for a rehabilitation benefit equal to 5% of the month LTD benefit. Pursuant to the enhancement, that rehabilitation benefit shall be increased to 10% of the monthly LTD benefit.

As stated above, Prudential will continue to insure the benefits provided under the Plan. Prudential will also insure the improved benefits.

Independent Fiduciary

In connection with the application to the DOL, Microsoft has retained, at its expense, Milliman, Inc. ("Milliman"), an international firm of consultants and actuaries with expertise in employee benefits and insurance, to serve as an Independent Fiduciary for this transaction. Milliman has analyzed the transaction and rendered an opinion indicating compliance with requirements "a" through "g" set forth in the requested authorization at Exhibit A. In addition, Milliman will represent the interests of the Plan as Independent Fiduciary at all times with respect to the transaction. Milliman will monitor compliance by the parties with the term and conditions of the transaction, and will take whatever action is necessary and appropriate to safeguard the interests of the Plan and its participants and beneficiaries with respect thereto, and to insure that the proposed transaction remains in the interest of the Plan and its participants and beneficiaries.

Overview of Exemption Conditions

The following is a summary of the principal conditions that would be imposed pursuant to the DOL authorization (a full version of which is attached as Exhibit A):

- The Plan will pay no more than adequate consideration for the insurance contracts.
- No commissions will be paid by the Plan with respect to the direct sale of such contracts or the reinsurance thereof;
- In the initial year of any such contract involving Orcas, there will be an immediate and objectively determined benefit to the participants and beneficiaries of the Plan in the form of increased benefits.
- Microsoft has retained an independent fiduciary, at its sole expense, to analyze the transaction and render an opinion that the requirements of subsections (a) through (g) of Exhibit A have been satisfied.

Tentative Authorization of Proposed Transaction

Authorization of the DOL was requested under a procedure, Prohibited Transaction Exemption ("PTE") 96-62, which permits a party to base its submission on substantially similar transactions described in either: (1) two individual Prohibited Transaction Exemptions granted within the past 60 months, or (2) one individual Prohibited Transaction Exemption granted within the past 120 months and one transaction which received final authorization under PTE 96-62 (an "Authorized Transaction") within the past 60 months. The Proposed Transactions are substantially similar to the transactions indicated as follows, and relief is requested from the same restrictions: Prohibited Transaction Exemption 2000-48, 65 Fed. Reg. 60452 (October 11, 2000), granted to Columbia Energy Group, Inc. ("Columbia Energy"); and Authorized Transaction 2008-04E (May 14, 2008), granted to Cephalon, Inc. ("Cephalon"). In those cases, each respective employer proposed using its captive insurance company to reinsure employee benefits, and agreed to provide improved benefits, retain an independent fiduciary, contract only with insurers with an A rating or better from A.M. Best Company or a similar rating agency, and arrange the transaction with the captive as indemnity insurance only. Moreover, in each of those cases, the captive was domiciled in a jurisdiction outside the U.S. (Bermuda), and established a U.S. branch (in Vermont) to effectuate the reinsurance transaction. Based on these representations, the Department granted Columbia Energy an exemption from the prohibited transaction restrictions under Sections 406(a) and (b) of ERISA, and granted Cephalon a corresponding authorization under PTE 96-62.

The proposed transaction described in this notice has met the requirements for tentative

authorization from the DOL under PTE 96-62. Unless the DOL otherwise notifies Microsoft, a final authorization would be effective [DATE].

Your Right to Comment on Tentative Authorization

As an interested party, you have the right to submit comments to the DOL on the tentative authorization. If you decide to do so, you should submit your comments to the following address:

Employee Benefits Security Administration
Office of Exemption Determinations, Division of Individual
Exemptions
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room N-5700
Washington, D.C. 20210
Attn: Brian Shiker
Re: Microsoft Corporation (Submission Number E-00640)

Be sure to refer to the submission number, which is E-00640. Comments must be received by the DOL no later than [DATE].

Comments may be faxed or e-mailed to the DOL. The fax number is (202) 219-0204, and the e-mail address isshiker.brian@dol.gov. If you have questions regarding your right to comment on this tentative authorization, you may call Brian Shiker at (202) 693-8552.

We expect to implement the benefit improvements and the reinsurance program as soon as practicable following the date of final authorization.

If you have any questions about any information in this notice, including the terms of your benefits under the plans maintained by Microsoft, please contact:

[HR CONTACT]

Exhibit A

Pending Authorization Microsoft

The restrictions of sections 406(a) and (b) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") shall not apply to the reinsurance of risks and the receipt of premiums therefrom by Orcas Ltd. ("Orcas") in connection with an insurance contract sold by Prudential Insurance Company of America ("Prudential"), or any successor insurance company to Prudential which is unrelated to Microsoft Corporation ("Microsoft") to provide Long-Term Disability ("LTD") insurance benefits to participants through the Microsoft Corporation Welfare Plan (the "Plan") maintained by Microsoft, provided the following conditions are met:

- a. Orcas
 1. Is a party in interest with respect to the Plan by reason of a stock or partnership affiliation with Microsoft that is described in section 3(14)(E) or (G) of ERISA;
 2. Is licensed to sell insurance or conduct reinsurance operations in at least one State as defined in section 3(10) of ERISA;
 3. Has obtained a Certificate of Authority from the Insurance Commissioner of its domiciliary state, which has neither been revoked nor suspended;
 4. Will undergo an examination by an independent certified public accountant for its last completed taxable year immediately prior to the taxable year of the reinsurance transaction. Such accountant must furnish a satisfactory report to the Department of Labor within 6 months of the end of the taxable year. In addition, the independent certified public accountant will examine Orcas' reserves on an annual basis in connection with the employee benefit business to be reinsured by Orcas to ensure that appropriate reserve levels are maintained. Further, such accountant must prepare and furnish its report to the independent plan fiduciary within 6 months after the end of the taxable year.
 5. Is licensed to conduct reinsurance transactions by a State whose law requires that an actuarial review of reserves be conducted annually by an independent firm of actuaries, and reported to the appropriate regulatory authority.
- b. The Plan pays no more than adequate consideration for the insurance contracts;
- c. No commissions are paid to any parties in interest with respect to the direct sale of the insurance contracts that are to be reinsured to Orcas, or the reinsurance thereof;
- d. In the initial year of any contract involving Orcas, there will be an immediate and objectively determined benefit to the participants and beneficiaries affected by that contract in the form of increased benefits;

- e. In subsequent years, the formula used to calculate premiums by Prudential or any successor insurer will be similar to the formulae used by other insurers providing comparable coverage under similar programs. Furthermore, the premium charge calculated in accordance with the formula will be reasonable and will be comparable to the premium charged by the insurer and its competitors with the same or a better rating providing the same coverage under comparable programs;
- f. The Plan only contracts with insurers with a rating of A or better from A.M. Best Company. The reinsurance arrangements between Prudential and Orcas will be indemnity reinsurance only, i.e., the insurer will not be relieved of liability to the Plan should Orcas be unable or unwilling to cover any liability arising from the reinsurance arrangement;
- g. The Plan retains an independent fiduciary (the "Independent Fiduciary"), at Microsoft's sole expense, to analyze the transaction and render an opinion that the requirements of sections (a) through (f) have been met. For purposes of this exemption, the Independent Fiduciary is a person who:
 - 1. Is not directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with Microsoft, Orcas, or Prudential (this relationship hereinafter referred to as an "Affiliate");
 - 2. Is not an officer, director, employee of, or partner in, Microsoft, Orcas, or Prudential (or any Affiliate thereof);
 - 3. Is not a corporation or partnership in which Microsoft, Orcas, or Prudential has an ownership interest or is a partner;
 - 4. Does not have an ownership interest in Microsoft, Orcas, Prudential, or any Affiliate thereof;
 - 5. Is not a fiduciary with respect to the Plan prior to the appointment; and
 - 6. Has acknowledged in writing acceptance of fiduciary responsibility and has agreed not to participate in any decision with respect to any transaction in which the Independent Fiduciary has an interest that might affect its best judgments as a fiduciary.

For purposes of this definition of an "Independent Fiduciary", no organization or individual may serve as an Independent Fiduciary for any fiscal year if the gross income received by such organization or individual (or partnership or corporation of which such individual is an officer, director, or 10 percent or more partner or shareholder) from Microsoft, Orcas, Prudential, or their Affiliates (including amounts received for service as Independent Fiduciary under any prohibited transaction exemption granted by the Department) for that fiscal year exceeds 5 percent of that organization or individual's annual gross income from all sources for such fiscal year.

In addition, no organization or individual who is an Independent Fiduciary, and no partnership or corporation of which such organization or individual is an officer, director, or 10 percent or more partner or shareholder, may acquire any property from, sell any property to, or borrow funds from Microsoft, Orcas, Prudential, or their Affiliates during the period that such organization or individual serves as Independent Fiduciary, or negotiates any such transaction during the period that such organization or individual serves as an Independent Fiduciary, and continuing for a period of six months after such organization or individual ceases to be an Independent Fiduciary.

The benefit enhancements are not required as part of a legal proceeding, court order, or judgment under state or federal law, or mandatory benefit to be provided under state law.