WINTRUST FINANCIAL CORP
Form 424B3
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[NORTHVIEW LOGO] WINTRUST FINANCIAL CORPORATION

PROXY STATEMENT OF NORTHVIEW FINANCIAL CORPORATION

PROSPECTUS OF WINTRUST FINANCIAL CORPORATION

MERGER PROPOSED - YOUR VOTE IS VERY IMPORTANT

DEAR NORTHVIEW FINANCIAL CORPORATION SHAREHOLDERS:

You are cordially invited to attend a special meeting of shareholders of Northview Financial Corporation which will be held on September 15, 2004, at 5:00 p.m. at the offices of Northview Bank and Trust, 245 Waukegan Road, Northfield, Illinois.

At the meeting, you will be asked to approve a merger agreement between Northview and Wintrust Financial Corporation that provides for Wintrust's acquisition of Northview. If the merger is completed, each share of Northview common stock which you own will be converted into the right to receive shares of Wintrust common stock, plus cash in the amount of $123.75. The exact number of shares of Wintrust common stock that you will receive will depend upon the average price of Wintrust's common stock determined at the time of closing. If the average price of Wintrust's common stock at closing is at least $42.80 per share but not more than $52.80, the number of shares you will be entitled to receive will be determined by dividing $151.25 by the average price. For example, if the average price is $50.97 (the closing price of the stock on August 9, 2004), you would receive 2.967 shares of Wintrust common stock and $123.75 in cash for each share of Northview common stock which you own, and the value of the total per share merger consideration that you would receive would be $275.00. If the average price is less than $42.80, you will receive 3.534 shares of Wintrust common stock for each Northview share you own, and if the average price is greater than $52.80, you will receive 2.865 shares for each Northview share you own. Additionally, if Northview exceeds certain financial performance measures, you will be entitled to a special dividend to be paid by Northview prior to the closing of the merger.

Wintrust's common stock is traded on the Nasdaq National Market under the symbol "WTFC." The closing price of Wintrust's common stock on August 9, 2004, was $50.97.

The merger cannot be completed unless the holders of at least two-thirds of the voting power of the shares of Northview common stock entitled to vote at the meeting approve the merger agreement. YOUR BOARD OF DIRECTORS HAS APPROVED AND UNANIMOUSLY RATIFIED THE MERGER AGREEMENT AND RECOMMENDS THAT YOU APPROVE IT.

Additional information regarding the transaction, the merger agreement, Northview and Wintrust is set forth in the attached proxy statement/prospectus. This document also serves as the prospectus for up to 657,000 shares of common stock that may be issued by Wintrust in connection with the merger. WE URGE YOU TO READ THIS ENTIRE DOCUMENT CAREFULLY, INCLUDING "RISK FACTORS" BEGINNING ON PAGE 15.

Sincerely,

/s/ Blair K. Robinson

Blair K. Robinson
President
Northview Financial Corporation

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED UNDER THIS PROXY STATEMENT/PROSPECTUS OR DETERMINED IF THIS PROXY STATEMENT/PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES TO BE ISSUED IN CONNECTION WITH THE MERGER ARE NOT SAVINGS OR DEPOSIT ACCOUNTS OR OTHER OBLIGATIONS OF ANY BANK OR NONBANK SUBSIDIARY OF ANY OF THE PARTIES, AND THEY ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE BANK INSURANCE FUND OR ANY OTHER GOVERNMENTAL AGENCY.

THIS PROXY STATEMENT/PROSPECTUS IS DATED AUGUST 13, 2004, AND IS FIRST BEING MAILED TO NORTHVIEW SHAREHOLDERS ON OR ABOUT AUGUST 13, 2004.

AVAILABLE INFORMATION

As permitted by the rules of the Securities and Exchange Commission, this document incorporates certain important business and financial information about Wintrust from other documents that are not included in or delivered with this document. These documents are available to you without charge upon your written or oral request. Your requests for these documents should be directed to the following:

WINTRUST FINANCIAL CORPORATION
727 NORTH BANK LANE
LAKE FOREST, ILLINOIS 60045
ATTENTION: DAVID A. DYKSTRA
CHIEF OPERATING OFFICER
(847) 615-4096

IN ORDER TO ENSURE TIMELY DELIVERY OF THESE DOCUMENTS, YOU SHOULD MAKE YOUR REQUEST BY AUGUST 17, 2004 TO RECEIVE THEM BEFORE THE SPECIAL MEETING.

YOU CAN ALSO OBTAIN DOCUMENTS INCORPORATED BY REFERENCE IN THIS DOCUMENT THROUGH THE SEC'S WEBSITE AT WWW.SEC.GOV. SEE "WHERE YOU CAN FIND MORE INFORMATION" BEGINNING ON PAGE 48.

NORTHVIEW FINANCIAL CORPORATION

245 Waukegan Road
Northfield, Illinois 60093

Notice of Special Meeting of Shareholders

to be held

September 15, 2004

DATE: September 15, 2004

TIME: 5:00 p.m., Chicago time

PLACE: Northview Bank and Trust
245 Waukegan Road
Northfield, Illinois

To Northview Financial Corporation Shareholders:

We are pleased to notify you of and invite you to a special meeting of shareholders. At the meeting you will be asked to vote on the following matters:

- Approval of the Agreement and Plan of Merger, dated as of May 10, 2004, that provides for Wintrust Financial Corporation to acquire Northview Financial Corporation, as described in the attached proxy statement/prospectus.

- To transact any other business that properly comes before the special meeting, or any adjournments or postponements of the special meeting.

Holders of record of Northview common stock at the close of business on August 13, 2004 may vote at the special meeting. Approval of the merger agreement requires the affirmative vote at the special meeting of holders of at least two-thirds of the voting power of the shares of Northview common stock entitled to vote at the meeting.

THE BOARD OF DIRECTORS OF NORTHVIEW UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT.

To ensure that your shares are voted at the special meeting, please promptly complete, sign and return the proxy form in the enclosed envelope whether or not you plan to attend the meeting in person. Shareholders who attend the special meeting may revoke their proxies and vote in person, if they so desire.

Northfield, Illinois
August 13, 2004

By Order of the Board of Directors,

/s/ Blair K. Robinson

Blair K. Robinson
Director and President

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE MERGER..
SUMMARY..
Information about Wintrust and Northview...
The merger and the merger agreement..
Reasons for the merger...
Board recommendation to Northview shareholders...
Fairness Opinion of Northview's Financial Advisor..
Northview special meeting..
Record date for the special meeting; revocability of proxies.....................................
Vote required..
What Northview shareholders will receive in the merger...
Regulatory approvals...
New Wintrust shares will be eligible for trading on Nasdaq.......................................
Conditions to the merger...
Termination..
Termination fee..
Interests of officers and directors in the merger that are different than yours.........
Voting agreements..
Accounting treatment of the merger...
Certain differences in shareholder rights..
Dissenters' rights...
Certain federal income tax consequences of the merger..
Historical Comparative Per Share Data; Pro Forma Per Share Data..................................
Selected Financial Data of Wintrust..

RISK FACTORS...
There is fluctuation in the trading market of Wintrust's common stock and the market
common stock you will receive in the merger is uncertain......................
Northview's shareholders will not control Wintrust's future operations...........................
De novo operations and branch openings impact Wintrust's profitability...........................
Wintrust's allowance for loan losses may prove to be insufficient to absorb losses th
in its loan portfolio...
Wintrust's premium finance business involves unique operational risks and could
significant losses...
Wintrust may be adversely affected by interest rate changes......................................
Wintrust's shareholder rights plan and provisions in its articles of incorporation and
delay or prevent an acquisition of Wintrust by a third party..................

CAUTION ABOUT FORWARD-LOOKING STATEMENTS...

SPECIAL MEETING OF NORTHVIEW SHAREHOLDERS..
Date, place, time and purpose..
Record date, voting rights, quorum and required vote...
Voting and revocability of proxies...
Dissenters' rights...

DESCRIPTION OF THE MERGER..
General ....
The Companies..
Background of the merger...
Northview's reasons for the merger and recommendation of the board of directors.........
Wintrust's reasons for the merger..
Fairness Opinion of Northview's Financial Advisor..
Accounting treatment...
Certain federal income tax consequences of the merger..

i

TABLE OF CONTENTS
(continued)

Regulatory approvals....................
Interests of certain persons in the merger ....
Voting agreements....................
Restrictions on resale of Wintrust common stock....................

DESCRIPTION OF THE MERGER AGREEMENT....................
Time of completion....................
Consideration to be received in the merger....................
Exchange of certificates....................
Conduct of business pending the merger and certain covenants....................
Representations and warranties....................
Conditions to completion of the merger....................
Certain minimum requirements closing condition....................
Termination....................
Termination fee....................
Board of Directors of Wintrust and Northview Bank after the merger....................
Employee benefit matters....................
Expenses....................
Nasdaq stock listing....................

COMPARISON OF SHAREHOLDER RIGHTS....................
Authorized capital stock....................
Payment of dividends....................
Advance notice requirements for presentation of business and nominations of directo
meetings of shareholders....................
Quorum ....
Election, classification and size of Board of Directors....................
Removal of directors....................
Filling vacancies on the Board of Directors....................
Amendment of Articles of Incorporation and By-laws....................
Mergers, acquisitions and other transactions....................
Business combinations with interested shareholders....................
Limitations on directors' liability....................
Indemnification....................
Action by shareholders without a meeting....................
Special meetings of shareholders....................
Preemptive rights....................
Dissenters' rights of dissenting shareholders....................
Certain anti-takeover effects of Wintrust's articles and by-laws and Illinois law.......
Rights plan....................

LEGAL MATTERS....................

EXPERTS....................

SHAREHOLDER PROPOSALS....................

WHERE YOU CAN FIND MORE INFORMATION....................

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE..........................

ANNEX A: AGREEMENT AND PLAN OF MERGER..........................

ANNEX B: ILLINOIS DISSENTERS' RIGHTS LAW..........................

ANNEX C: FORM OF VOTING AGREEMENT..........................

ANNEX D: FAIRNESS OPINION OF NORTHVIEW'S FINANCIAL ADVISOR..........................

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHAT AM I BEING ASKED TO VOTE ON? WHAT IS THE PROPOSED TRANSACTION?

A: You are being asked to vote on the approval of a merger agreement that provides for Wintrust's acquisition of Northview. Upon completion of the merger, all of Northview's common stock will be cancelled, Wintrust will own all of Northview Bank's outstanding common stock and you will become a shareholder of Wintrust.

Q: WHAT WILL I BE ENTITLED TO RECEIVE IN THE MERGER?

A: If the merger is completed, each share of Northview common stock that you own immediately before completion of the merger will be converted into the right to receive shares of Wintrust common stock, plus cash in the amount of $123.75. For each of your shares of Northview common stock, you will receive a number of shares of Wintrust common stock equal to the "per share stock consideration" to be calculated as set forth in the merger agreement. The per share stock consideration will be determined by dividing $151.25 by the average of the high and low sales prices of Wintrust's common stock during the 10-day trading period ending two days before the merger closing date, if such average price is at least $42.80 per share but not more than $52.80 per share. If the average price of Wintrust's common stock during this period is less than $42.80 per share, you will receive 3.534 shares of Wintrust common stock for each share of Northview common stock that you own, and if the average price of the Wintrust common stock is greater than $52.80 per share, you will receive 2.865 shares of Wintrust common stock for each of your shares of Northview common stock.

Additionally, if Northview's "closing adjusted net equity" is greater than its "base adjusted net equity," as such terms are defined in the merger agreement, then Northview shareholders will be entitled to a special dividend equal to 50% of the amount of the excess, as calculated in accordance with the merger agreement, subject to certain additional terms. Northview will not be able to definitively determine the amount of the dividend, if any, until the second business day prior to the closing date. See "Summary--What Northview shareholders will receive in the merger" on page 6.

Q: WHY DO NORTHVIEW AND WINTRUST WANT TO MERGE?

A: Northview believes that the proposed merger will provide Northview shareholders with substantial benefits, and Wintrust believes that the

merger will further its strategic growth plans. Wintrust does not currently have any banking offices in the communities served by Northview Bank and Trust and believes that the acquisition of Northview provides an attractive opportunity to expand into those markets. As a larger company, Wintrust can provide the capital and resources that Northview Bank needs to compete more effectively and to offer a broader array of products and services to better serve its banking customers. To review the reasons for the merger in more detail, see "Description of the merger--Wintrust's reasons for the merger" on page 26 and "Description of the merger--Northview's reasons for the merger and recommendation of the board of directors" on page 25.

Q: WHAT DOES THE NORTHVIEW BOARD OF DIRECTORS RECOMMEND?

A: Northview's board of directors unanimously recommends that you vote "FOR" adoption of the merger agreement. Northview's board of directors has determined that the merger agreement and the merger are in the best interests of Northview and its shareholders. To review the background and reasons for the merger in greater detail, see pages 21 to 26.

Q: WHAT VOTE IS REQUIRED TO ADOPT THE MERGER AGREEMENT?

A: Holders of at least two-thirds of the voting power of the shares of Northview common stock entitled to vote at the meeting must vote in favor of the merger. All of Northview's directors who own Northview common stock have agreed to vote their shares in favor of the merger at the special meeting. These shareholders owned, directly or indirectly, approximately 38% of Northview's outstanding common stock on the record date. Wintrust shareholders will not be voting on the merger agreement. See "Description of the merger--

1

Interests of certain persons in the merger" on page 32 and "Description of the merger--Voting agreements" on page 33.

Q: WHAT DO I NEED TO DO NOW? HOW DO I VOTE?

A: After you have carefully read and considered the information contained in this proxy statement/prospectus, please complete, sign, date and mail your proxy form in the enclosed return envelope as soon as possible. This will enable your shares to be represented at the special meeting. You may also vote in person at the meeting. If you do not return a properly executed proxy form and do not vote at the special meeting, this will have the same effect as a vote against the approval of the merger agreement. If you sign, date and send in your proxy form, but you do not indicate how you want to vote, your proxy will be voted in favor of approval of the merger agreement. You may change your vote or revoke your proxy prior to the special meeting by filing with Northview's secretary a duly executed revocation of proxy, submitting a new proxy form with a later date or voting in person at the special meeting.

Q: WHAT IF I OPPOSE THE MERGER? DO I HAVE DISSENTER'S RIGHTS?

A: Northview shareholders who do not vote in favor of the merger agreement and otherwise comply with all of the procedures of Sections 11.65 and 11.70 of the Illinois Business Corporation Act will be entitled to receive payment in cash of the estimated fair value of their shares of

Northview common stock as ultimately determined under the statutory process. A copy of these provisions is attached as Annex B to this proxy statement/prospectus. This value could be more but could also be less than the merger consideration.

Q: WHAT ARE THE TAX CONSEQUENCES OF THE MERGER TO ME?

A: In general, the conversion of your shares of Northview common stock into Wintrust common stock in the merger will be tax-free for United States federal income tax purposes. However, you will recognize gain (but not loss) limited to the amount of cash received in the merger. Additionally, you will recognize gain or loss on any cash that you receive instead of fractional shares of Wintrust's common stock. You should consult with your tax adviser for the specific tax consequences of the merger to you. See "Description of the merger--Certain federal income tax consequences of the merger" on page 30.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: NO. Prior to the closing date of the merger, Wintrust's exchange agent will mail you a letter of transmittal with instructions informing you how to send in your stock certificates to the exchange agent. You should use the letter of transmittal to exchange your Northview stock certificates for new certificates representing the shares of Wintrust common stock you will own after the merger is complete. DO NOT SEND IN YOUR STOCK CERTIFICATES WITH YOUR PROXY FORM.

Q: WHEN IS THE MERGER EXPECTED TO BE COMPLETED?

A: We will try to complete the merger as soon as possible. Before that happens, the merger agreement must be approved and adopted by Northview's shareholders and we must obtain the necessary regulatory approvals. Assuming holders of at least two-thirds of the voting power of Northview's shares of common stock entitled to vote at the special meeting vote in favor of the merger agreement and we obtain the other necessary approvals, we expect to complete the merger during the third quarter of 2004.

Q: IS COMPLETION OF THE MERGER SUBJECT TO ANY CONDITIONS BESIDES SHAREHOLDER APPROVAL?

A: Yes. The transaction must receive the required regulatory approvals, and there are other customary closing conditions that must be satisfied. Also, as a condition to Wintrust's obligation to close, as of the second business day prior to the closing date, Northview and certain of its subsidiaries must satisfy certain financial measures set forth in the merger agreement.

Q: WHO CAN ANSWER MY OTHER QUESTIONS?

A: If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy form, you should contact Northview's President, Blair K. Robinson at (847) 446-0245.

SUMMARY

This summary highlights selected information in this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger more fully, you should read this entire document carefully, including the annexes and the documents referred to in this proxy statement/prospectus. A list of the documents incorporated by reference appears on page 49.

INFORMATION ABOUT WINTRUST AND NORTHVIEW

WINTRUST FINANCIAL CORPORATION (See page 20)
727 North Bank Lane
Lake Forest, Illinois 60045
(847) 615-4096

Wintrust Financial Corporation, an Illinois corporation, is a financial holding company headquartered in Lake Forest, Illinois. Wintrust operates ten community banks, all located in the Chicago metropolitan area, which provide community-oriented, personal and commercial banking services primarily to individuals and small to mid-size businesses through 42 banking facilities as of June 30, 2004. Wintrust also provides wealth management services through its trust company, investment adviser and broker-dealer subsidiaries to customers located primarily in the Midwest, as well as to customers of its banks. In addition, Wintrust is involved in specialty lending through a number of operating subsidiaries or divisions of certain of its banks. As of June 30, 2004, Wintrust had consolidated total assets of $5.33 billion, deposits of $4.32 billion and shareholders' equity of $374 million. Wintrust's common stock trades on the Nasdaq National Market under the symbol "WTFC."

NORTHVIEW FINANCIAL CORPORATION (See page 21)
245 Waukegan Road
Northfield, Illinois 60093
(847) 446-0245

Northview Financial Corporation, an Illinois corporation, is a bank holding company headquartered in Northfield, Illinois. Its primary business is operating its bank subsidiary, Northview Bank and Trust, an Illinois chartered bank with offices in Northfield, Mundelein and Wheaton, Illinois, and its indirect subsidiary, Northview Mortgage, LLC, an Illinois limited liability company. Northview Mortgage is a mortgage broker and does not originate mortgage loans. In addition to Northview Bank and Northview Mortgage, Northview conducts limited business activities through 245 Waukegan Road, L.P., an Illinois limited partnership. We sometimes refer to all of Northview's subsidiaries as the "subsidiaries." As of June 30, 2004, Northview had consolidated total assets of approximately $343.9 million, deposits of $311.9 million and shareholders' equity of $19.7 million. Northview is not a public company and, accordingly, there is no established trading market for Northview's common stock.

THE MERGER AND THE MERGER AGREEMENT (See pages 20-42)

Wintrust's acquisition of Northview is governed by a merger agreement. The merger agreement provides that, if all of the conditions set forth in the merger agreement are satisfied or waived, Northview will be merged with and into Wintrust and will cease to exist. After the consummation of the merger, Northview Bank will become a wholly owned subsidiary of Wintrust. We encourage you to read the merger agreement, which is included as Annex A to this proxy statement/prospectus.

REASONS FOR THE MERGER (See pages 25-26)

Northview's board of directors determined that the merger agreement and the merger consideration were in the best interests of Northview and its shareholders and unanimously recommends that Northview's shareholders vote in favor of approval and adoption of the merger agreement and the transactions contemplated therein.

In its deliberations and in making its determination, Northview's board of directors considered many factors, including, without limitation, the following:

- The opinion of its financial advisor that the merger consideration was fair to Northview's shareholders from a financial point of view, and the relationship between the merger consideration and the historical and current value of Northview's common stock;
- The results of operations, overall financial condition and management of Northview Bank and Wintrust;
- General banking conditions, including bank merger and acquisition activity, and the competitive environment for community banks;
- The effects of the proposed merger on Northview's employees and its customers;
- The support of Northview's principal shareholders for the proposed merger and their willingness to enter into a voting agreement;
- Future economic conditions and their potential impact on Northview Bank's profitability as well as increasing competition in Northview Bank's market areas; and
- The fact that Wintrust is a publicly traded company with greater access to capital and managerial resources than Northview.

Wintrust's board of directors concluded that the merger is in the best interests of Wintrust and its shareholders. In deciding to approve the merger, Wintrust's board of directors considered a number of factors, including:

- management's view that the acquisition of Northview provides an attractive opportunity to expand into certain suburban communities within the Chicago metropolitan area in which Wintrust does not currently operate and which management considers to be desirable markets;
- Northview's community banking orientation and its compatibility with Wintrust and its subsidiaries;
- a review of the demographic, economic and financial characteristics of the markets in which Northview operates, including existing and potential competition and history of the market areas with respect to financial institutions;

- management's review of Northview's business, operations, earnings and financial condition, including its management, capital levels and asset quality, since its de novo formation in 1993; and

- the likelihood of regulators approving the merger without undue conditions or delay.

BOARD RECOMMENDATION TO NORTHVIEW SHAREHOLDERS (See page 25)

Northview's board of directors believes that the merger of Northview with Wintrust is in the best interests of Northview and Northview's shareholders. NORTHVIEW'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE MERGER.

FAIRNESS OPINION OF NORTHVIEW'S FINANCIAL ADVISOR (See page 26)

In deciding to approve the merger, Northview's board of directors considered, among other things, the opinion of William Blair & Company, L.L.C. that the merger consideration is fair, from a financial point of view, to the holders of Northview common stock. You should read the full text of the fairness opinion, which is attached to this proxy statement/prospectus as Annex D, to understand the assumptions made, limits of the reviews undertaken and other matters considered by William Blair & Company, L.L.C. in rendering its opinion.

NORTHVIEW SPECIAL MEETING (See page 18)

The special meeting of shareholders will be held at the offices of Northview Bank and Trust, located at 245 Waukegan Road, Northfield, Illinois on September 15, 2004 at 5:00 p.m., Chicago time. Northview's board of directors is soliciting proxies for use at the special meeting. At the special meeting, Northview shareholders will be asked to vote on a proposal to approve the merger agreement.

RECORD DATE FOR THE SPECIAL MEETING; REVOCABILITY OF PROXIES (See page 18)

You may vote at the special meeting if you own shares of Northview common stock of record at the close of business on August 13, 2004. You will have one vote for each share of Northview common stock you owned on that date. You may revoke your proxy at any time before the vote at the special meeting.

VOTE REQUIRED (See page 18)

To approve the merger, at least two-thirds of the voting power of the shares of Northview common stock entitled to vote at the meeting must be voted in favor of the merger agreement. To satisfy the quorum requirements set forth in Northview's by-laws, shareholders holding at least a majority of the voting power of the outstanding shares of Northview common stock entitled to vote at the special meeting must be present in person or by proxy at the special meeting. Shareholders may vote their shares in person at the special meeting or by signing and returning the enclosed proxy form.

All of Northview's directors who own shares of Northview common stock have committed to vote their shares in favor of the merger. At the record date, these shareholders owned, directly or indirectly, 63,285 shares, constituting

approximately 38% of the shares entitled to vote at the meeting. See "Description of the merger--Voting agreements" on page 33.

WHAT NORTHVIEW SHAREHOLDERS WILL RECEIVE IN THE MERGER (See page 34)

If the merger is completed, each share of Northview common stock that you own immediately before the completion of the merger will be converted into the right to receive shares of Wintrust common stock, plus cash in the amount of $123.75. For each of your shares of Northview common stock, you will receive a number of shares of Wintrust common stock equal to the "per share stock consideration" to be calculated as set forth in the merger agreement. The per share stock consideration will be determined by dividing $151.25 (55% of the aggregate per share merger consideration of $275) by the average of the high and low sales prices of Wintrust's common stock during the 10-day trading period ending two trading days before the merger closing date, if the average price is at least $42.80 per share but not more than $52.80 per share. If the average price of Wintrust's common stock during this period is less than $42.80, you will receive 3.534 shares of Wintrust common stock for each share of Northview common stock that you own, and if such average price of Wintrust's common stock is greater than $52.80 per share, you will receive 2.865 shares of Wintrust common stock for each share of Northview common stock that you own.

In effect, the merger agreement provides that the average high and low per share price of Wintrust's common stock to be used in determining the per share stock consideration may not be higher than $52.80 nor less than $42.80. Within that price range, the per share stock consideration varies as the average price of Wintrust's common stock changes so that the per share value of merger consideration which Northview shareholders receive remains constant and the number of Wintrust shares you receive will change. However, if the average price of Wintrust's common stock is outside of that range, then the per share stock consideration does not change as Wintrust's stock price changes. As a result, if the average price of Wintrust's common stock is less than $42.80, then you will receive a lower per share value of merger consideration at closing than you would receive if the average price of Wintrust's common stock is within or above the range, but if the average price of Wintrust's common stock is greater than $52.80, then you will receive a higher per share value of merger consideration at closing than you would receive if the average price of Wintrust's common stock is within or below the range.

Northview shareholders will not receive fractional shares of Wintrust common stock. Instead, they will receive a cash payment for any fractional shares based on the value of Wintrust common stock determined in the manner described above.

Five days prior to the closing date of the merger, Illinois Stock Transfer Company, Wintrust's exchange agent, will mail you materials and instructions for exchanging your Northview stock certificates for Wintrust stock certificates. You should not send in your Northview stock certificates until you receive the transmittal materials and instructions from the exchange agent.

Additionally, if Northview's "closing adjusted net equity" is greater than its "base adjusted net equity" (both terms as defined in the merger agreement) as of two business days prior to the closing date, then Northview shareholders will be entitled to a special dividend equal, in the aggregate, to 50% of the amount of the excess. Northview will not be able to definitively determine the amount of the dividend, if any, until the second business day prior to the closing date. Northview will pay the special dividend prior to the closing date.

REGULATORY APPROVALS (See page 32)

The merger cannot be completed until Wintrust receives the necessary regulatory approval of each of the Board of Governors of the Federal Reserve System, or the Federal Reserve, and the Illinois Department of Financial & Professional Regulation or the IDFPR (formerly known as the Illinois Office of Banks and Real Estate). Wintrust submitted an application to the Federal Reserve Bank of Chicago seeking approval of the merger, which was approved on July 13, 2004. Wintrust also filed the required notice with the IDFPR. Wintrust must also file applications with the IDFPR and the Florida Department of Financial Services to become the indirect owner of Northview Mortgage.

NEW WINTRUST SHARES WILL BE ELIGIBLE FOR TRADING ON NASDAQ (See page 42)

The shares of Wintrust common stock to be issued in the merger can be traded on the Nasdaq National Market.

CONDITIONS TO THE MERGER (See page 39)

The completion of the merger is subject to the fulfillment of a number of conditions, including:

- approval of the merger agreement at the special meeting by at least two-thirds of the voting power of the shares of Northview common stock entitled to vote at the meeting;

- no more than 10% of Northview's shareholders shall have exercised their dissenters' rights under Illinois law;

- approval of the transaction by the appropriate regulatory authorities, including the Federal Reserve, and IDFPR, and expiration or termination of all waiting periods required by law;

- maintenance by Northview of certain minimum net worth and shareholders' equity requirements; and

- the representations and warranties made by the parties in the merger agreement must be materially true and correct as of the effective date of the merger or as otherwise required in the merger agreement.

TERMINATION (See page 40)

Subject to conditions and circumstances described in the merger agreement, either Wintrust or Northview may terminate the merger agreement if, among other things, any of the following occur:

- the merger is not completed by December 31, 2004 (or March 31, 2005, if there is a delay due to regulatory approval);

- in certain circumstances, if a condition to the merger has become impossible to satisfy;

- a party has materially breached the merger agreement and failed to cure the breach;

- the holders of at least two-thirds of the voting power of Northview common stock do not approve the merger; or

- in certain circumstances, if Northview has received a superior offer to sell to a third party.

Additionally, subject to the satisfaction of certain conditions, Wintrust may terminate the merger agreement if the "closing adjusted net equity" of Northview is less than or equal to its "minimum net equity." Northview's "closing adjusted net equity" and "minimum net equity" will be determined in accordance with the applicable provisions of the merger agreement.

TERMINATION FEE (See page 41)

Under certain circumstances described in the merger agreement, Wintrust may be owed a $1,000,000 termination fee from Northview if the transaction is not consummated. See "Description of the merger agreement--Termination fee."

INTERESTS OF OFFICERS AND DIRECTORS IN THE MERGER THAT ARE DIFFERENT THAN YOURS (See page 32)

You should be aware that some of Northview's directors and officers may have interests in the merger that are different from, or in addition to, their interests as shareholders. Northview's board of directors was aware of these interests and took them into account in approving the merger. For example, the merger agreement obligates certain officers of Northview and Northview Bank to enter into employment agreements with Wintrust, and certain of Northview's executive officers are entitled to receive bonuses, totaling $1.2 million in the aggregate, in connection with and at the closing of the merger.

Wintrust is also obligated under the merger agreement to provide continuing indemnification to Northview's and Northview Bank's directors and officers, and to provide such directors and officers with directors' and officers' liability insurance for a period of five years following the merger, subject to certain conditions set forth in the merger agreement.

VOTING AGREEMENTS (See page 33)

All of Northview's directors who are shareholders of Northview have agreed to vote all of their shares of common stock in favor of the merger agreement at the special meeting. Together, they own, directly or indirectly, approximately 38% of Northview's outstanding shares of common stock. These voting agreements terminate if the merger agreement is terminated in accordance with its terms. A copy of the form of voting agreement is attached to this proxy statement/prospectus as Annex C.

ACCOUNTING TREATMENT OF THE MERGER (See page 30)

The merger will be accounted for as a purchase transaction in accordance with accounting principles generally accepted in the United States.

CERTAIN DIFFERENCES IN SHAREHOLDER RIGHTS (See page 42)

When the merger is completed, Northview shareholders, whose rights are governed by Illinois law and Northview's articles of incorporation and by-laws, automatically will become Wintrust shareholders, and their rights will continue to be governed by Illinois law, as well as Wintrust's articles of incorporation and by-laws, in addition to laws and requirements that apply to public companies.

DISSENTERS' RIGHTS (See page 19)

Northview shareholders may dissent from the merger and, upon complying with the requirements of Illinois law, receive cash in the amount of the fair value of their shares instead of the merger consideration.

A copy of the section of the Illinois Business Corporation Act pertaining to appraisal rights is attached as Annex B to this proxy statement/prospectus. You should read the statute carefully and consult with your legal counsel if you intend to exercise these rights.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER (See page 30)

Your receipt of shares of Wintrust common stock as part of the merger consideration generally will be tax-free for United States federal income tax purposes. However, you will recognize gain (but not loss) limited to the amount of cash you receive in the merger. Additionally, you will recognize gain or loss on any cash that you receive instead of fractional shares of Wintrust common stock. You should consult your tax adviser for a full understanding of the federal, state, local and foreign tax consequences of the merger to you.

HISTORICAL COMPARATIVE PER SHARE DATA; PRO FORMA PER SHARE DATA

The table below shows the reported high and low sales prices of Wintrust's common stock during the periods indicated. This information gives effect to a 3-for-2 stock split, effected in the form of a 50% stock dividend, as of March 14, 2002.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 2002		
First Quarter.............................	$22.99	$18.33
Second Quarter............................	34.58	22.22
Third Quarter.............................	36.00	26.54
Fourth Quarter............................	32.66	25.45
YEAR ENDING DECEMBER 31, 2003		
First Quarter.............................	$33.65	$27.19
Second Quarter............................	32.40	27.74
Third Quarter.............................	38.89	29.30
Fourth Quarter.............................	46.85	37.64
YEAR ENDING DECEMBER 31, 2004		
First Quarter..............................	$50.44	$41.85
Second Quarter.............................	50.80	45.18
Third Quarter (through August 9, 2004).......	53.76	49.82

The following table presents selected comparative per share data for Wintrust common stock and Northview common stock on a historical and pro forma

combined basis, and for Wintrust common stock on a pro forma combined basis, giving effect to the merger with both Northview and Wintrust's proposed acquisition of Town Bankshares, Ltd., or Town Bankshares. The consummation of Wintrust's merger with Northview is not conditioned upon completion of its proposed acquisition of Town Bankshares. See "Description of the Merger--Business of Wintrust--Recent Developments." The pro forma combined information is not necessarily indicative of the actual results that would have occurred had the merger been consummated at the beginning of the periods indicated, or of the future operations of the combined entity.

	SIX MONTHS ENDED JUNE 30, 2004	YEAR ENDED DECEMBER 31, 2003
WINTRUST HISTORICAL:		
Diluted earnings per share...........	$ 1.12	$ 1.98
Cash dividends declared per share.....	0.10	0.16
Book value per share (at period end)..	18.26	17.43
WINTRUST PRO FORMA COMBINED(1):		
Diluted earnings per share...........	$ 1.13	$ 2.03
Cash dividends declared per share.....	0.10	0.16
Book value per share (at period end)..	19.17	18.38
WINTRUST PRO FORMA COMBINED (NORTHVIEW AND TOWN BANKSHARES)(1)(2):		
Diluted earnings per share...........	$ 1.15	$ 2.05
Cash dividends per share.............	0.10	0.16
Book value per share (at period end)..	19.96	19.20
NORTHVIEW HISTORICAL:		
Diluted earnings per share...........	$ 4.53	$ 10.67
Cash dividends declared per share.....	--	--
Book value per share (at period end)..	116.77	114.47
NORTHVIEW PRO FORMA COMBINED(1):		
Diluted earnings per share...........	$ 3.28	$ 5.90
Cash dividends declared per share.....	0.29	0.47
Book value per share (at period end)..	55.80	53.49

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(1) Computed using per share stock consideration of 2.9109 shares of Wintrust common stock per share of Northview common stock, assuming a Wintrust common stock price of $51.96.

(2) Computed using per share stock consideration of 1.3664 shares of Wintrust common stock per share of Town Bankshares common stock, assuming a Wintrust common stock price of $51.96.

The following table sets forth the last sales prices as reported by Nasdaq for Wintrust common stock on the dates indicated, and the equivalent per share value of Northview common stock, giving effect to the merger, as of the same dates:

	CLOSING PRICE WINTRUST	HISTORICAL PRICE NORTHVIEW	NORTHVIEW EQUIVALENT PER

	COMMON STOCK	COMMON STOCK	SHARE VALUE
May 7, 2004(1)............	$47.25	(2)	$275.00(3)
August 9, 2004............	$50.97	(2)	$275.00(4)

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(1) Trading date immediately preceding the date of public announcement of the proposed merger.

(2) There is currently no market value for the shares of Northview being acquired since Northview is not a publicly traded company.

(3) Based on per share stock consideration of 3.201 shares of Wintrust common stock and per share cash consideration of $123.75.

(4) Based on per share stock consideration of 2.967 shares of Wintrust common stock and per share cash consideration of $123.75.

SELECTED FINANCIAL DATA OF WINTRUST

The selected consolidated financial data presented below, as of or for each of the years in the five-year period ended December 31, 2003, are derived from Wintrust's audited historical financial statements. The selected consolidated financial data presented below, as of or for the six-month periods ended June 30, 2004 and 2003, are derived from unaudited consolidated financial statements. In Wintrust's opinion, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results as of or for the six-month periods, have been included. Share and per share amounts have been adjusted to reflect the 3-for-2 stock split effected as a stock dividend effective as of March 14, 2002. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto incorporated by reference into this proxy statement/prospectus from Wintrust's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and Wintrust's Quarterly Report on Form 10-Q for the period ended June 30, 2004. Results for past periods are not necessarily indicative of results that may be expected for any future period, and results for the six-month period ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2004.

SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,			
2004	2003	2003(1)	2002(2)	2001	2000
		(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			

STATEMENT OF INCOME DATA:						
Total interest income.....	$ 119,307	$ 96,504	$ 203,991	$ 182,233	$ 166,455	$ 148,
Total interest expense....	46,079	41,572	83,499	84,105	92,441	87,
Net interest income....	73,228	54,932	120,492	98,128	74,014	61,
Provision for loan losses................	3,762	5,493	10,999	10,321	7,900	5,
Net interest income after provision for loan losses.....	69,466	49,439	109,493	87,807	66,114	55,
Non-interest Income:						
Gain on sale of premium finance receivables.........	3,539	2,270	4,911	3,374	4,564	3,
Mortgage banking revenue............	7,256	9,797	16,718	13,271	8,106	3,
Wealth management fees...............	16,496	12,953	28,871	25,229	1,996	1,
Service charges on deposit accounts....	1,946	1,722	3,525	3,121	2,504	1,
Administrative services revenues...	1,887	2,159	4,151	3,501	4,084	4,
Premium finance defalcation-partial settlement(3).......	--	--	500	1,250	--	
Securities (losses) gains, net.........	853	606	642	107	337	
Other.................	8,204	7,341	13,274	10,819	7,207	3,
Total non-interest income...........	40,181	36,848	72,592	60,672	28,798	18,

(See footnotes on page 14)

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,			
	2004	2003	2003(1)	2002(2)	2001	2000
			(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Non-interest Expense:						
Salaries and employee benefits...	$ 43,073	$ 35,715	$ 74,775	$ 63,442	$ 35,628	$ 28,
Equipment expense......	4,351	3,758	7,957	7,191	6,297	5,
Occupancy expense, net.	4,497	3,785	7,436	6,691	4,821	4,
Data processing........	2,652	2,079	4,304	4,161	3,393	2,

Advertising and marketing	1,590	1,043	2,215	2,302	1,604	1,
Professional fees	2,143	1,704	3,342	2,801	2,055	1,
Amortization of intangibles	393	298	640	324	685	
Premium finance defalcation(3)	--	--	--	--	--	4,
Other non-interest expenses	12,944	11,038	22,072	19,072	11,300	9,
Total non-interest expense	71,643	59,420	122,741	105,984	65,783	57,
Income before taxes and cumulative effect of accounting change	38,004	26,867	59,344	42,495	29,129	16,
Income tax expense (benefit)	13,917	9,585	21,226	14,620	10,436	5,
Income before cumulative effect of accounting change	24,087	17,282	38,118	27,875	18,693	11,
Cumulative effect of change in accounting for derivatives, net of tax	--	--	--	--	(254)	
Net income	$ 24,087	$ 17,282	$ 38,118	$ 27,875	$ 18,439	$ 11,
COMMON SHARE DATA:						
Earnings per share:						
Basic	$ 1.19	$ 1.00	$ 2.11	$ 1.71	$ 1.34	$ 0
Diluted	1.12	0.94	1.98	1.60	1.27	0
Cash dividends per common share(4)	0.10	0.08	0.16	0.12	0.093	0.
Book value per share	18.26	14.31	17.43	13.19	9.72	7
Weighted average common shares outstanding:						
Basic	20,250	17,360	18,032	16,334	13,734	13,
Diluted	21,564	18,473	19,219	17,445	14,545	13,
SELECTED FINANCIAL CONDITION DATA (AT END OF PERIOD):						
Total assets	$5,326,179	$4,132,394	$4,747,398	$3,721,555	$2,705,422	$2,102,
Total loans	3,695,551	2,896,148	3,297,794	2,556,086	2,018,479	1,547,
Total deposits	4,324,368	3,419,946	3,876,621	3,089,124	2,314,636	1,826,
Notes payable	1,000	26,000	26,000	44,025	46,575	27,
Subordinated notes	50,000	50,000	50,000	25,000	--	
Long term debt - trust preferred securities	139,587	76,816	96,811	50,894	51,050	51,
Total shareholders' equity	374,152	249,399	349,837	227,002	141,278	102,

(See footnotes on following page)

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,			
	2004	2003	2003(1)	2002(2)	2001	2000
SELECTED FINANCIAL RATIOS AND OTHER DATA:						
Performance Ratios:						
Non-interest income to average assets(5)...	1.60%	1.92%	1.76%	1.89%	1.24%	0
Non-interest expense to average assets(3)(5)........	2.85	3.10	2.98	3.30	2.83	3
Net overhead ratio(3)(5)(6)......	1.25	1.18	1.22	1.41	1.59	2
Return on average assets(3)(5)........	0.96	0.90	0.93	0.87	0.79	0
Return on average equity(3)(5)........	13.41	14.74	14.36	14.76	15.24	11
Average loan-to-average deposit ratio.......	87.5	86.1	86.4	88.5	87.4	8
Dividend payout ratio(4)(5).........	8.9	8.5	8.1	7.5	7.4	
Asset Quality Ratios:						
Non-performing loans to total loans.........	0.40%	0.47%	0.72%	0.49%	0.64%	0
Allowance for loan losses to:						
Total loans.........	0.76	0.74	0.77	0.72	0.68	0
Non-performing loans...............	191.134	156.42	107.59	146.63	105.63	10
Net charge-offs to average loans(3)(5).........	0.07	0.19	0.18	0.24	0.26	0
Non-performing assets to total assets........	0.31	0.35	0.51	0.34	0.48	0
Other data at end of period:						
Number of banking facilities..........	42	32	36	31	29	

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(1) Wintrust completed its acquisition of Lake Forest Capital Management Company on February 1, 2003. The results for the year ended December 31, 2003 include the results of Lake Forest Capital Management Company since that date.

(2) Wintrust completed its acquisition of the Wayne Hummer Companies effective as of February 1, 2002. The results for the year ended December 31, 2002 include the results of the Wayne Hummer Companies since February 1, 2002.

(3) In 2000, Wintrust recorded a $4.3 million pre-tax charge ($2.6 million after-tax) related to a fraudulent loan scheme perpetrated against its premium finance subsidiary. The amount of this charge was not included in loans charged-off because a lending relationship had never been established. In the first quarter of 2002, Wintrust recovered $1.25 million (pre-tax) of this amount ($754,000 after-tax). Additionally, in the fourth quarter of 2003, Wintrust recovered $500,000 (pre-tax) of this amount ($302,000 after tax).

(4) Wintrust declared its first semi-annual dividend payment in January 2000. Dividend data reflected for the interim periods reflect semi-annual, not quarterly, dividends.

(5) Certain financial ratios for interim periods have been annualized.

(6) Non-interest expense less non-interest income divided by average total assets.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the caption "Caution About Forward-Looking Statements" on page 17, you should consider the following risk factors carefully in deciding whether to vote for the adoption of the merger agreement.

THERE IS FLUCTUATION IN THE TRADING MARKET OF WINTRUST'S COMMON STOCK AND THE MARKET PRICE OF THE COMMON STOCK YOU WILL RECEIVE IN THE MERGER IS UNCERTAIN.

You will receive Wintrust common stock in the merger. The number of shares you receive will depend on the average price of Wintrust common stock prior to the merger. Changes in the market price of Wintrust common stock may result from a variety of factors, including general market and economic conditions, the future financial condition and operating results of Wintrust, changes in Wintrust's business, operations and prospects and regulatory considerations, many of which are beyond Wintrust's control.

The price of Wintrust common stock at completion of the merger may vary from its price on the date the merger agreement was signed, from its price on the date of this proxy statement/prospectus, from its price on the date of the special meeting and from the average price during the 10-day pricing period used to determine the number of shares you are to receive. You will not be entitled to receive additional cash or shares in the merger if the price of Wintrust common stock on the closing date of the merger is less than the average price during the pricing period. Because the merger will be completed after the date of the special meeting, at the time of the special meeting you will not know what the market value of the Wintrust common stock you will receive after the merger will be. See "Description of the merger agreement--Consideration to be received in the merger."

Wintrust's common stock is traded on the Nasdaq National Market under the symbol "WTFC". The maintenance of an active public trading market depends, however, upon the existence of willing buyers and sellers, the presence of which is beyond Wintrust's control or the control of any market maker. In addition to the shares of Wintrust common stock to be issued in the merger, Wintrust also has shares of common stock covered by resale registration statements and

estimates that there are currently approximately up to 1,075,000 of those shares outstanding that have not yet been resold. These remaining shares may be freely sold from time to time in the market. The market price of Wintrust's common stock could drop significantly if shareholders sell or are perceived by the market as intending to sell large blocks of its shares.

NORTHVIEW'S SHAREHOLDERS WILL NOT CONTROL WINTRUST'S FUTURE OPERATIONS.

Together, Northview's shareholders own 100% of Northview and have absolute power to approve or reject any matters requiring shareholder approval under Illinois law and Northview's articles of incorporation and by-laws. After the merger, Northview shareholders will become owners of less than 3% of the outstanding shares of Wintrust common stock. Even if all former Northview shareholders voted together on all matters presented to Wintrust shareholders from time to time, the former Northview shareholders most likely would not have a significant impact on the approval or rejection of future Wintrust proposals submitted to a shareholder vote.

DE NOVO OPERATIONS AND BRANCH OPENINGS IMPACT WINTRUST'S PROFITABILITY.

Wintrust's financial results have been and will continue to be impacted by its strategy of de novo bank formations and branch openings. Wintrust has employed this strategy to build an infrastructure that management believes can support additional internal growth in its banks' respective markets. Wintrust opened its eighth de novo bank in April 2004, and expects to undertake additional de novo bank formations or branch openings as it expands into additional communities in and around Chicago. In addition, Wintrust's recent and pending acquisitions involve relatively recently formed de novo banks. Based on Wintrust's experience, its management believes that it generally takes from 13 to 24 months for new banks to first achieve operational profitability, depending on the number of branch facilities opened, the impact of organizational and overhead expenses, the start-up phase of generating deposits and the time lag typically involved in redeploying deposits into attractively priced loans and other higher yielding earning assets. However, it may take longer than expected or than the amount of time Wintrust has historically experienced for new banks and/or branch facilities to reach profitability, and there can be no guarantee that these new banks or branches will ever be profitable. To the extent Wintrust undertakes additional de novo bank,

branch and business formations, its level of reported net income, return on average equity and return on average assets will be impacted by start-up costs associated with such operations, and it is likely to continue to experience the effects of higher expenses relative to operating income from the new operations. These expenses may be higher than Wintrust expected or than its experience has shown.

WINTRUST'S ALLOWANCE FOR LOAN LOSSES MAY PROVE TO BE INSUFFICIENT TO ABSORB LOSSES THAT MAY OCCUR IN ITS LOAN PORTFOLIO.

Wintrust's allowance for loan losses is established in consultation with management of its operating subsidiaries and is maintained at a level considered adequate by management to absorb loan losses that are inherent in the portfolios. At June 30, 2004, Wintrust's allowance for loan losses was 191.34% of total nonperforming loans and 0.76% of total loans. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond its control, and such losses may exceed current estimates. Rapidly growing and de novo bank loan

portfolios are, by their nature, unseasoned. As a result, estimating loan loss allowances for Wintrust's newer banks is more difficult, and, therefore, the banks may be more susceptible to changes in estimates, and to losses exceeding estimates, than banks with more seasoned loan portfolios. Although management believes that the allowance for loan losses is adequate to absorb losses that may develop in Wintrust's existing portfolios of loans and leases, there can be no assurance that the allowance will prove sufficient to cover actual loan or lease losses in the future.

WINTRUST'S PREMIUM FINANCE BUSINESS INVOLVES UNIQUE OPERATIONAL RISKS AND COULD EXPOSE IT TO SIGNIFICANT LOSSES.

Of Wintrust's total loans at June 30, 2004, 21%, or $790.9 million, were comprised of commercial insurance premium finance receivables that it generates through First Insurance Funding Corporation. These loans, intended to enhance the average yield of earning assets of its banks, involve a different, and possibly higher, level of risk of delinquency or collection than generally associated with loan portfolios of more traditional community banks. First Insurance also faces unique operational and internal control challenges due to the relatively rapid turnover of the premium finance loan portfolio and high volume of new loan originations. The average term to maturity of these loans is less than 12 months, and the average loan size when originated is approximately $30,000.

Because Wintrust conducts lending in this segment primarily through relationships with a large number of unaffiliated insurance agents and because the borrowers are located nationwide, risk management and general supervisory oversight may be more difficult than in its banks. Wintrust may also be more susceptible to third party fraud. Acts of fraud are difficult to detect and deter, and Wintrust cannot assure investors that its risk management procedures and controls will prevent losses from fraudulent activity. For example, in the third quarter of 2000, Wintrust recorded a non-recurring after-tax charge of $2.6 million in connection with a series of fraudulent loan transactions perpetrated against First Insurance by one independent insurance agency located in Florida. Although Wintrust has since enhanced its internal controls system at First Insurance, it may continue to be exposed to the risk of significant loss in its premium finance business.

Due to continued growth in origination volume of premium finance receivables, since the second quarter of 1999, Wintrust has been selling some of the loans First Insurance originates to an unrelated third party. Wintrust has recognized gains on the sales of the receivables, and the proceeds of sales have provided it with additional liquidity. Consistent with its strategy to be asset driven, Wintrust expects to pursue similar sales of premium finance receivables in the future; however, it cannot assure you that there will continue to be a market for the sale of these loans and the extent of Wintrust's future sales of these loans will depend on the level of new volume growth in relation to its capacity to retain the loans within its subsidiary banks' loan portfolios. Because Wintrust has a recourse obligation to the purchaser of premium finance loans that it sells, it could incur losses in connection with the loans sold if collections on the underlying loans prove to be insufficient to repay to the purchaser the principal amount of the loans sold plus interest at the negotiated buy-rate and if the collection shortfall on the loans sold exceeds Wintrust's estimate of losses at the time of sale.

WINTRUST MAY BE ADVERSELY AFFECTED BY INTEREST RATE CHANGES.

Wintrust's interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities, including the monetary policies of the Federal Reserve. Changes in interest rates

may influence the growth rate of loans and deposits, the quality of the loan portfolio, loan and deposit pricing, the volume of loan originations in Wintrust's mortgage banking business and the value that Wintrust can recognize on the sale of mortgage loans in the secondary market. While Wintrust has taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that such measures will be effective in avoiding undue interest rate risk. If market interest rates should move contrary to Wintrust's "gap" position on interest earning assets and interest-bearing liabilities, the "gap" will work against it and Wintrust's net interest income may be negatively affected.

The success of Wintrust's covered call option program, which Wintrust has used in effect to hedge its interest rate risk, may also be affected by changes in interest rates. With the decline in interest rates over the last three years to historically low levels, Wintrust has been able to augment the total return of its investment securities portfolio by selling call options on fixed-income securities it owns. Wintrust recorded fee income of $7.9 million during 2003, compared to $6.0 million in 2002, from premiums earned on these covered call option transactions. During the first six months of 2004, Wintrust recorded fee income of $4.6 million on these transactions. In a rising interest rate environment, particularly if the yield curve remains steep, the amount of premium income Wintrust earns on these transactions will likely decline. Wintrust's opportunities to sell covered call options may be limited in the future if rates continue to rise.

WINTRUST'S SHAREHOLDER RIGHTS PLAN AND PROVISIONS IN ITS ARTICLES OF INCORPORATION AND BY-LAWS MAY DELAY OR PREVENT AN ACQUISITION OF WINTRUST BY A THIRD PARTY.

Wintrust's board of directors has implemented a shareholder rights plan. The rights, which are attached to Wintrust's shares and trade together with its common stock, have certain anti-takeover effects. The plan may discourage or make it more difficult for another party to complete a merger or tender offer for Wintrust's shares without negotiating with Wintrust's board of directors or to launch a proxy contest or to acquire control of a larger block of Wintrust's shares. If triggered, the rights will cause substantial dilution to a person or group that attempts to acquire Wintrust without approval of its board of directors and, under certain circumstances, the rights beneficially owned by the person or group may become void. The plan also may have the effect of limiting shareholder participation in certain transactions such as mergers or tender offers whether or not such transactions are favored by Wintrust's incumbent directors and key management. In addition, Wintrust's executive officers may be more likely to retain their positions with the company as a result of the plan, even if their removal would be beneficial to shareholders generally.

Wintrust's articles of incorporation and by-laws contain provisions, including a staggered board provision, that make it more difficult for a third party to gain control or acquire Wintrust without the consent of its board of directors. These provisions also could discourage proxy contests and may make it more difficult for dissident shareholders to elect representatives as directors and take other corporate actions.

These provisions of Wintrust's governing documents may have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of Wintrust's shareholders.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including information incorporated into this document by reference, that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The sections of this document which contain forward-looking statements include, but are not limited to, "Questions and answers about the merger," "Summary," "Risk Factors," "Description of the merger--Background of the merger," "Description of the merger--Wintrust's reasons for the merger" and "Description of the merger--Northview's reasons for the merger and recommendation of the board of directors." You can identify these statements from our use of the words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target" and similar expressions. These forward-looking statements include statements relating to:

o Wintrust's goals, intentions and expectations;

o Wintrust's business plans and growth strategies; and

o estimates of Wintrust's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors including, among other things, the risks and other factors set forth in the "Risk Factors" section beginning on page 15 as well as changes in economic conditions, competition, or other factors that may influence the anticipated growth rate of loans and deposits, slower than anticipated development and growth of Tricom and the trust and investment business, unanticipated changes in the temporary staffing industry, the ability to adapt successfully to technological changes to compete effectively in the marketplace, competition and the related pricing of brokerage and asset management products and Wintrust's ability to pursue acquisitions and expansion.

Because of these and other uncertainties, Wintrust's actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Wintrust's past results of operations do not necessarily indicate Wintrust's future results. You should not place undue reliance on any forward-looking statements, which speak only as of the dates on which they were made. Wintrust is not undertaking an obligation to update these forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Wintrust qualifies all of its forward-looking statements by these cautionary statements.

Further information on other factors which could affect the financial results of Wintrust before and after the merger is included in Wintrust's filings with the SEC, incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 48.

SPECIAL MEETING OF NORTHVIEW SHAREHOLDERS

DATE, PLACE, TIME AND PURPOSE

Wintrust's and Northview's boards of directors are sending you this

proxy statement/prospectus and proxy form to use at the special meeting. At the special meeting, the Northview board of directors will ask you to vote on a proposal to approve the merger. Northview and Wintrust will share equally the costs associated with the solicitation of proxies for the special meeting. The special meeting will be held at the offices of Northview Bank and Trust, located at 245 Waukegan Road, Northfield, Illinois, on September 15, 2004 at 5:00 p.m., Chicago time.

RECORD DATE, VOTING RIGHTS, QUORUM AND REQUIRED VOTE

Northview has set the close of business on August 13, 2004, as the record date for determining the holders of its common stock entitled to notice of and to vote at the special meeting. Only Northview shareholders at the close of business on the record date are entitled to notice of and to vote at the special meeting. As of the record date, there were 165,880 shares of Northview common stock outstanding and entitled to vote at the special meeting. There must be at least a majority of the voting power of Northview's shares entitled to vote, present in person or by proxy, at the special meeting in order for the vote on the merger to occur.

Approval of the merger agreement will require the affirmative vote of at least two-thirds of the voting power of Northview's shares entitled to vote at the meeting. Certain shareholders of Northview, whose aggregate direct and indirect ownership represents approximately 38% of Northview's outstanding shares, have committed to vote their shares in favor of the merger. Wintrust does not own any shares of Northview common stock. See "Description of the merger--Voting agreements" on page 33 for a description of the provisions of the voting agreement.

Abstentions from voting will have the same effect as voting against the merger agreement.

VOTING AND REVOCABILITY OF PROXIES

You may vote in person at the special meeting or by proxy. To ensure your representation at the special meeting, we recommend you vote by proxy even if you plan to attend the special meeting. You can always change your vote at the meeting.

18

Voting instructions are included on your proxy form. If you properly complete and timely submit your proxy, your shares will be voted as you have directed. You may vote for, against, or abstain with respect to the approval of the merger. If you are the record holder of your shares and submit your proxy without specifying a voting instruction, your shares will be voted "FOR" approval of the merger agreement.

You may revoke your proxy before it is voted by:

- filing with Northview's secretary a duly executed revocation of proxy;
- submitting a new proxy with a later date; or
- voting in person at the special meeting.

Attendance at the special meeting will not, in and of itself, constitute a revocation of a proxy. All written notices of revocation and other communication with respect to the revocation of proxies should be addressed to: Northview Financial Corporation, 245 Waukegan Road, Northfield, Illinois, 60093,

Attention: Secretary.

DISSENTERS' RIGHTS

Under Illinois law, you are entitled to exercise dissenters' rights and obtain a cash payment for your shares as a result of Wintrust's acquisition of Northview, provided that you comply with the provisions of Sections 11.65 and 11.70 of the Illinois Business Corporation Act, or the IBCA. A copy of those sections are attached as Annex C and incorporated in this proxy statement/prospectus by reference. If you comply with the provisions of Section 11.70 of the IBCA, then, upon consummation of the merger, you are entitled to receive payment from Wintrust for the fair value of your shares, with accrued interest. The term "fair value" means the value of the shares immediately before the merger closing excluding any appreciation or depreciation in anticipation of the merger, unless the exclusion would be inequitable. If Wintrust and you cannot agree on the fair value of your shares or the accrued interest, then the IBCA provides for a judicial determination of these amounts. The value determined by an Illinois court may be more or less than the value you are entitled to under the merger agreement. If you desire to exercise dissenters' rights, you should refer to the statute in its entirety and should consult with legal counsel before taking any action to ensure that you comply strictly with the applicable statutory provisions.

In summary, to exercise dissenters' rights, you must do all of the following:

- deliver to Northview a written demand for payment of your shares before the vote on the merger is taken;
- not vote in favor of the merger; note, however, that a vote, in person or by proxy, against approval and adoption of the merger agreement will not constitute a written demand for appraisal; and
- continue to hold your shares of Northview common stock through the effective time of the merger.

Your failure to vote against the proposal to adopt the merger agreement will not constitute a waiver of your dissenters' rights under the IBCA. Also, a vote against approval of the merger agreement will not by itself be sufficient to satisfy your obligations if you are seeking an appraisal. You must follow the procedures set forth in Section 11.70 of the IBCA to obtain dissenters' rights.

Each outstanding share of Northview common stock for which a legally sufficient demand in accordance with Section 11.70 of the IBCA has been made and that was not voted in favor of approval of the merger will, after the effective time of the merger, represent only the rights of a dissenting shareholder under the IBCA. This includes the right to obtain payment for the estimated fair value of those shares as provided under the IBCA.

If you make a legally sufficient demand, within ten days after the effective date of the merger or 30 days after you have delivered your written demand for payment, whichever is later, Wintrust will send to you a statement setting forth its opinion as to the fair value of your shares, as well as certain financial statements and a commitment to pay to you the estimated fair value for your shares. If you do not agree with the opinion of Wintrust as to the estimated fair value of the shares, then within 30 days of your receipt of Wintrust's valuation statement, you must

notify Wintrust of your estimated fair value of your shares and demand the difference between your estimated fair value and the amount of the payment by Wintrust.

If, within 60 days from delivery of Wintrust's notice to the dissenting shareholders, you and Wintrust have not agreed in writing to the fair value of the shares, Wintrust either will pay the difference in value demanded by you, or file a petition in the circuit court requesting the court to determine the fair value of the shares. Wintrust will be required to then make all dissenters to the merger a party to this proceeding. If Wintrust does not commence the action, you are permitted by law to commence an action.

In a proceeding brought by Wintrust to determine value, the court will determine the costs of the proceeding, including the reasonable compensation of expenses of the appraisers appointed by the court and excluding fees and expenses of counsel and experts for the respective parties. If the fair value of the shares, as determined by the court, materially exceeds the price that Wintrust estimated to be the fair value of the shares or, if no estimate was given, then all or any part of the costs may be assessed against Wintrust. If the amount that any dissenter estimated to be the fair value of the shares materially exceeds the fair value of the shares, as determined by the court, then all or any part of the costs may be assessed against that dissenter. The costs may be awarded to the dissenter if the court finds that Wintrust did not substantially comply with the procedure to dissent in the statute. In addition, costs can be assessed against either party if the court finds that that party acted arbitrarily or not in good faith with respect to the dissenter's rights.

A share for which you have properly exercised your dissenters' rights and followed the correct procedures in the IBCA will not be converted into, or represent, a right to receive Wintrust common stock and cash as provided under the merger agreement. Any of these shares will not, after the effective time of the merger, be entitled to vote for any purpose or receive any dividends or other distributions. If, however, you, as the holder of the shares, fail to properly perfect, effectively withdraw, waive or lose, or otherwise become ineligible to exercise dissenting shareholder's rights under the IBCA, then at that time the shares held by you will be converted into Wintrust common stock and cash as provided in the merger agreement.

DESCRIPTION OF THE MERGER

The following information describes certain aspects of the merger. The merger agreement, which you should read carefully, is attached as Annex A to this proxy statement/prospectus, and incorporated herein by reference.

GENERAL

When the merger is consummated, Northview will merge with and into Wintrust and will cease to exist. Wintrust will survive the merger and Northview Bank will become a wholly-owned subsidiary of Wintrust. At the effective time of the merger, holders of Northview common stock will exchange their shares for shares of Wintrust common stock and cash. Each share of Northview common stock will be exchanged for a number of Wintrust shares equal to the "per share stock consideration" which cannot be determined until two trading days before completion of the merger. See "Description of the merger agreement--Consideration to be received in the merger" for a detailed description of the method for determining the per share stock consideration.

Only whole shares of Wintrust common stock will be issued in the merger. As a result, cash will be paid instead of any fractional shares. Shares of Northview common stock held by Northview shareholders who elect to exercise

their dissenters' rights will not be converted into Wintrust common stock and cash.

THE COMPANIES

Business of Wintrust--General

Wintrust Financial Corporation, an Illinois corporation, is a financial holding company headquartered in Lake Forest, Illinois. Wintrust operates ten community banks, all located in the Chicago metropolitan area, which provide community-oriented, personal and commercial banking services primarily to individuals and small to mid-size businesses through 42 banking facilities as of June 30, 2004. Wintrust also provides wealth management

services through its trust company, investment adviser and broker-dealer subsidiaries to customers, primarily in the Midwest, as well as to customers of its banks. In addition, Wintrust is involved in specialty lending through a number of operating subsidiaries or divisions of certain of its banks. Its specialty lending niches include commercial insurance premium finance, accounts receivable financing and administrative services to the temporary staffing industry and indirect auto lending in which Wintrust purchases loans through Chicago-area automobile dealerships. As of June 30, 2004, Wintrust had consolidated total assets of $5.33 billion, deposits of $4.32 billion and shareholders' equity of $374.0 million.

Financial and other information relating to Wintrust, including information relating to Wintrust's current directors and executive officers, is set forth in Wintrust's 2003 Annual Report on Form 10-K, Wintrust's Proxy Statement for its 2004 Annual Meeting of Shareholders filed with the SEC on April 23, 2004, Wintrust's Quarterly Reports on Form 10-Q for each of the quarters ended March 31, 2004 and June 30, 2004 and Wintrust's Current Reports on Form 8-K filed during 2004, which are incorporated by reference to this proxy statement/prospectus. Copies of these documents may be obtained from Wintrust as indicated under "Where You Can Find More Information" on page 48. See "Incorporation of Certain Information by Reference" on page 49.

Business of Wintrust--Recent Developments

On June 14, 2004, Wintrust announced the signing of a definitive agreement to acquire Town Bankshares, Ltd. ("Town Bankshares") in a merger transaction. Town Bankshares is the parent company of Town Bank which has locations in Delafield and Madison, Wisconsin. Town Bank began operations as a de novo bank in 1998 as Delafield State Bank and had total assets of approximately $234.3 million as of June 30, 2004.

In the proposed merger, each share of Town Bankshares' outstanding common stock will be converted into the right to receive cash and a number of shares of Wintrust's common stock to be determined based on Wintrust's average trading price at closing determined in accordance with the merger agreement. The aggregate per share consideration equates to approximately $129.10, subject to possible adjustment depending on Wintrust's average trading price at closing. At June 30, 2004, Town Bankshares had outstanding 298,206 shares of common stock and in-the-money options to acquire approximately 41,000 shares of common stock at exercise prices ranging from $50.00 to $60.00 per share, with a weighted average exercise price of approximately $57.41. The merger is expected to close by the early part of the fourth quarter of 2004 and is not expected to have a material effect on Wintrust's 2004 earnings per share.

Business of Northview

Northview Financial Corporation, an Illinois corporation, is a bank holding company headquartered in Northfield, Illinois. Its primary business is operating its bank subsidiary, Northview Bank and Trust, an Illinois chartered bank with offices in Northfield, Mundelein and Wheaton, Illinois and its indirect subsidiary, Northview Mortgage, LLC, an Illinois limited liability company. Northview Mortgage is a mortgage broker. It does not originate mortgage loans. In addition to Northview Bank and Northview Mortgage, Northview conducts limited business activities through 245 Waukegan Road, L.P., an Illinois limited partnership. We sometimes refer to all of Northview's subsidiaries as the "subsidiaries." As of June 30, 2004, Northview had consolidated total assets of approximately $343.9 million, deposits of $311.9 million and shareholders' equity of $19.7 million.

BACKGROUND OF THE MERGER

Northview is a bank holding company headquartered in Northfield, Illinois. Its primary business is operating Northview Bank with two offices located in Northfield, one in Mundelein and one in Wheaton, Illinois. Northview Bank was organized in 1992 by a group of prominent local businessmen led by Eugene E. White and Blair K. Robinson.

In the 1970's and 1980's, the primary investors of Northview successfully organized and operated a five-bank holding company called Charter Bank Group. The Charter Bank Group consisted of banks in Northfield, Glenview, Wheaton, Clarendon Hills and Winfield, Illinois. The banks were subsequently sold to NBD Bancorp in 1988. Almost without exception, the investors in Charter Group decided to invest in the new Northview chaired by Mr. White with Mr. Robinson as its president. Mr. Robinson had previously been senior vice president of the Bank

of Northfield, one of the Charter Bank Group banks, and subsequently served as president of the Bank of Glenbrook, also a Charter Bank Group bank.

In the early 1990's, Mr. White, Mr. Robinson and the investor group saw the potential and need for small community banks that aggressively pursue the strategy of offering personalized service to their customers. Mr. White assembled a board of directors at Northview with strong ties to the community and Mr. Robinson, with his personal banking experience and relationships in Glenview and Northfield, built a staff focused on successful community banking.

Northview Bank prospered as a de novo institution and by the end of 2003 had grown to $340 million in assets, $283 million in deposits, with $19 million of shareholders' equity. As Northview and Northview Bank grew, it began to strain the capabilities of Messrs. White and Robinson in terms of their management time. In February 2003, Northview's board of directors began to consider how Northview and Northview Bank could be best positioned strategically for the future. Considerations included providing positive returns on investment, the potential for future appreciation and the ability to provide liquidity for shareholders.

Over the next few months, Northview's board considered various scenarios on how to grow the bank and maintain its community banking focus. Board members expressed concern over the cost and challenges associated with achieving the bank's aggressive earnings and growth objectives.

The board of directors of Northview and Northview Bank were proud of the bank's record and believed it had the financial resources to succeed independently, and some of the directors favored this path. Other Northview directors believed the current active merger and acquisition market provided the opportunity to merge with a banking institution with a larger, stronger and more diversified business profile as a strategic alternative. All of Northview's directors were interested in determining what amount of additional capital would be required to fund the cost of restructuring in order to position Northview for continued growth.

In July 2003, Northview received an unsolicited cash offer from an outside investor group to purchase at least 75% of its outstanding common stock at a price of $275 per share. The offer was discussed at several board meetings and ultimately rejected, primarily because Northview's board believed that the shares remaining outstanding would likely have limited upside potential and restricted marketability. Furthermore, Northview's board recognized that a cash-only transaction would have serious tax consequences for Northview's shareholders.

It was during this period that representatives of Wintrust and Northview began informal discussions about a possible combination of the two companies.

In Septmber 2003, Northview's board of directors discussed the topic of the sale of Northview Bank among the possible strategic alternatives. Several of Northview's directors expressed the desire to know what the bank was worth, given the current robust merger and acquisition market for community banks in the greater Chicago area. These directors were aware of an active market for bank sales including to recent acquisitions announced by Wintrust as well as those recently announced by other local banking institutions. Representatives of Vedder Price and Grant Thornton LLP ("Grant Thornton"), Northview's outside legal counsel and independent public accountants, respectively, were at this board meeting and expressed the view that the board should consider retaining an investment banking firm for at least a preliminary view of what might be achievable in a sale, so that they could inform themselves more adequately of what Northview and Northview Bank were really worth in a negotiated sale. Northview's board of directors was also interested in exploring the future availability of capital for independent, growing community banks, a possible merger of equals between like-sized and like-minded, independent community banks, and other possible strategic options, including an initial public offering. After considering several possible investment banking firms to advise the board in these matters, Northview's board of directors chose William Blair & Company ("William Blair"), a well known and well regarded Chicago-based investment banking firm that has significant expertise in advising financial institutions on strategic matters, including bank mergers.

Northview's board of directors met with a representative of William Blair in October 2003. William Blair made a detailed presentation to the board on current market conditions for the acquisition of community banks in northern Illinois, the market for bank mergers in that marketplace, and possible values Northview might expect to achieve in a merger. William Blair also gave the board a briefing on a "merger of equals" strategy and discussed how such a transaction could work and how certain community banks in the north/northwest suburbs of Chicago

might be positioned with Northview and Northview Bank in such a transaction.

William Blair identified a number of potential acquirers in a conventional merger and presented certain background information on likely acquirers.

Following the October meeting, Northview's board of directors decided to retain William Blair to pursue a potential sale of the company. Northview's board of directors and William Blair jointly developed a preliminary list of eight potential interested parties, which William Blair contacted. William Blair, working with Northview's management, developed an offering memorandum containing important confidential information on the company and the bank.

Following the receipt of executed confidentiality agreements, William Blair distributed the offering memorandum to seven of the eight identified parties. The eighth party declined to participate in the process. William Blair and Northview's management met with five of the interested potential acquirers to discuss a possible affiliation, and requested that the interested potential acquirers provide a written non-binding indication of interest.

Of the seven interested parties, five parties submitted initial written non-binding indications of interest, including Wintrust and another Chicago-area bank holding company ("Holding Company"). Wintrust initially indicated that it would be interested in acquiring Northview for approximately $46-48 million, payable in part cash and part stock, subject to Wintrust board approval, regulatory approval and due diligence. The Holding Company submitted an initial indication of interest with a purchase price of $47-48 million, payable in cash, subject to the same contingencies. A third local institution made a verbal offer with a purchase price of $35-40 million, payable in either cash or cash and stock, and yet another local financial institution offered $36-38 million in cash.

Of these parties submitting written non-binding indications of interest, only two met the criteria established by Northview's board to conduct due diligence. Northview's board considered the size, community banking focus, culture, reputation and ability to offer expanded financial services to its customers, as well as obtaining a fair price for its shareholders, as key factors in determining the parties with which to continue discussions. Based on its own analysis and the input of William Blair, the board's pricing goal was approximately $48 million. Accordingly, the board decided to allow Wintrust and the Holding Company to conduct onsite loan review/due diligence in the month of March 2004.

Following this due diligence review, Wintrust and the Holding Company provided revised indications of interest. Wintrust presented a revised initial offer of $47.4 million, again payable in cash and stock, subject to the same contingencies. The Holding Company revised its offer to $47 million, but required that $5 million of the consideration be placed in escrow as a reserve for future possible loan charge-offs, or, alternatively, a purchase price of $43.3 million in cash.

Northview's board considered the range of the dollar amount of the consideration being offered, as well as the community banking philosophy of Wintrust and the Holding Company, and evaluated their potential ability to support the future growth of Northview Bank. Northview's board of directors felt that Wintrust's size, capital structure and the diversity of its subsidiary organizations would enable it to offer additional support to the bank to further its strategic growth plans, better serve its customers and compete more effectively in its marketplace.

Northview's board of directors, with its advisors, determined that the revised Wintrust proposal was the superior offer, and decided to proceed with the negotiation of a definitive agreement with Wintrust. The purchase price offered by Wintrust was predicated on a number of assumptions regarding

Northview's shareholders' equity at closing, receipt of various legal opinions, shareholder and regulatory approvals, and the employment of key bank personnel, including Mr. Robinson, pursuant to employment agreements.

As mentioned above, one of the conditions of the Wintrust written non-binding indication of interest (and of all the written non-binding indications of interest submitted) was that Mr. Robinson and other key members of the Northview management team would agree to continue on in their current capacities at Northview Bank throughout and following the merger. Mr. Robinson understood throughout the process that his agreement to work for Wintrust, or any other buyer of the company, would be required for Northview to receive what it perceived to be full value for its shares. Northview's board recognized that Mr. Robinson's strong ties to Northview personnel, its customers and markets, particularly Northfield, were a key determinant in the ultimate value of the company.

At a meeting of Northview's board of directors held in March 2004, with members of Vedder Price and William Blair in attendance, Mr. Robinson proposed that a bonus pool be established for himself and other key bank

executives as an incentive for them to remain with Northview and to enter into the requisite employment agreements. Northview's board of directors considered this request from Mr. Robinson given that Wintrust's offer was contingent on Mr. Robinson's remaining with the Bank after the merger. Furthermore, Northview's board of directors was not confident that any purchase price approaching the current Wintrust offer of $47.4 million could be achieved without Mr. Robinson and other key employees agreeing to work for and enter into a long-term non-compete arrangement with the surviving company. As a result of and in recognition of Mr. Robinson's and his management team's efforts during the negotiations with Wintrust, among other considerations, Northview's board of directors approved a $1.2 million bonus pool payable to Messrs. Robinson, Thoelecke and Kaiser, conditional upon closing of the proposed merger and their agreeing to sign long-term employment contracts. Northview's board understood that the tax-affected amount of the bonus pool would be subtracted from the merger consideration offered by Wintrust, but viewed the downside potential as far greater than the size of the approved bonus pool.

Negotiations of a definitive merger agreement began in earnest, with Northview represented by William Blair, its financial advisor, and Vedder Price, Northview's outside counsel. Wintrust was represented by Schiff Hardin LLP in the negotiations.

Further pricing discussions with Wintrust ensued, including evaluation and discussion by the parties of Northview's projected earnings, certain under-performing assets of Northview Bank and certain contingencies existing at the bank, as well as the cost of the bonus pool and other costs associated with the merger that would impact the final price.

Due to Mr. White's failing health, at a meeting in April 2004, Northview's board of directors appointed Arthur G. Bess, III, a current director and member of the board's executive committee, as vice chairman of the board, and directed him to participate with Mr. Robinson in the contract negotiations with Wintrust, assisted by William Blair and Vedder Price. Also at this meeting, Vedder Price gave the board a thorough briefing on its fiduciary duties under Illinois corporate law and relevant considerations for its decision on whether or not to sell the company at this time and at the price and other terms being considered. The various contract provisions of the proposed merger agreement and the shareholder voting agreement proposed by Wintrust were discussed in detail. The proposed voting agreement called for each Northview board member to vote his

or her shares in favor of the merger, subject to the exercise of their fiduciary duties as a director. The effect of certain provisions of the merger agreement that made completion of the merger more likely, and which might impede a third party offer for the company at a higher price, were covered in detail.

Continuing negotiations of the definitive merger agreement and related agreements with Wintrust occurred thereafter during April and Northview's executive committee and its board of directors were provided with drafts of the merger agreement as negotiations progressed.

In order to secure Mr. Robinson's ongoing commitment to the company after the proposed merger with Wintrust, Mr. Robinson and Northview agreed to enter into an employment agreement with a one-year term and a two-year non-compete agreement substantially similar to the one proposed by Wintrust as part of the merger. Under the terms of that agreement, Mr. Robinson will be paid $460,000 in cash at the closing of the merger, payable from the established bonus pool, as compensation to him for agreeing to the two-year non-competition provision. Northview also agreed to pay Mr. Robinson a bonus of $540,000 for his efforts related to the merger transaction, also payable from the established bonus pool. As a result of the merger, a buy-back restriction on certain of Mr. Robinson's stock options, which relates to 2,000 shares of Northview common stock, will terminate.

As price and related terms firmed up during late April 2004, Wintrust and Northview agreed that Wintrust would purchase all of Northview's outstanding common shares for $275 per share, payable 55% in stock and 45% in cash. Depending on the resolution of certain business contingencies, the merger agreement also provides for the payment of a final cash dividend to Northview's shareholders in an amount to be determined under the terms of the merger agreement.

On May 4, 2004, Northview's board of directors was apprised by its management, William Blair and Vedder Price of the finalization of the terms of the merger, including the voting agreement to be signed by certain directors/shareholders of Northview. William Blair presented the board with its opinion that, from a financial point

of view, the consideration to be paid to Northview's shareholders in the merger was fair. Northview's board of directors approved the merger agreement. Mr. White was absent from the meeting due to his poor health. He had been enthusiastically in favor of the merger throughout the process, but was unable to participate in the meeting at which the merger was approved. The merger was publicly announced at the close of trading on May 10, 2004, through a joint announcement by Wintrust and Northview.

NORTHVIEW'S REASONS FOR THE MERGER AND RECOMMENDATION OF THE BOARD OF DIRECTORS

Northview's board of directors believes that the merger is in the best interest of Northview and its shareholders. Accordingly, Northview's board of directors has approved and unanimously ratified the merger agreement and unanimously recommends that its shareholders vote "FOR" the approval of the merger agreement and the transactions it contemplates.

As indicated above under "Description of the Merger - Background of the merger," the Northview board of directors unanimously determined that the terms of the merger agreement are in the best interests of Northview and its shareholders.

In reaching its decision to approve the merger agreement and the merger and not remain an independent company, Northview's board of directors consulted with its legal and financial advisors, as well as management, and considered a number of factors. The following are the material factors considered by Northview's board:

- A review of the results of operations, current financial condition, management, capital levels and asset quality of Northview Bank and Wintrust.

- Information regarding general banking conditions, such as the current state of bank mergers and acquisitions activity and increased competition from diversified financial institutions.

- The effects of the proposed merger on the employees and customers of Northview Bank and the communities in which it operates, including Wintrust's similar focus on community banking.

- Support of the merger agreement and the merger expressed by certain principal shareholders of Northview and their willingness to enter into a voting agreement.

- An analysis of the future economic climate, which led Northview's board of directors to conclude that current general competitive and economic factors most likely would continue to place pressure on Northview Bank's interest margins in the future and, thereby, potentially lead to diminished profitability. The aggressive opening of new branch banks by Northview Bank's competitors in its market areas was also an important factor considered by Northview's board.

- The fact that Wintrust, as a publicly traded and larger and more diversified company, possesses greater access to capital and managerial resources than Northview does.

- The opinion of William Blair that the aggregate per share merger consideration of approximately $275.00, consisting of shares of Wintrust's common stock and $123.75 in cash, is fair to Northview's shareholders from a financial point of view, as more fully discussed below under "Description of the Merger -- Fairness Opinion of Northview's Financial Advisor."

- The relationship between the aggregate per share merger consideration and the historical and then-current market prices for Northview's common stock taking into account the fact that Northview's common stock is highly illiquid.

- The prices and premiums paid in comparable acquisition transactions of which Northview's board was aware, based on, among other things, information supplied by William Blair. Northview's board noted that the merger consideration offered by Wintrust compared favorably with similar transactions involving other financial institutions with comparable financial performance and capitalization structures.

The above discussion of the information and factors considered by the

Northview board is not intended to be exhaustive but includes all material factors considered by the Northview board in arriving at its determination to approve, and recommend that the Northview shareholders vote to approve, the merger agreement and related transactions. The Northview board did not assign any relative or specific weights to the above factors and individual directors may have given differing weights to different factors. The Northview board unanimously recommends that Northview's shareholders vote to approve the merger agreement and related transactions.

WINTRUST'S REASONS FOR THE MERGER

Wintrust's board of directors believes that the merger is in the best interests of Wintrust and its shareholders. In deciding to approve the merger, Wintrust's board of directors considered a number of factors, including:

- management's view that the acquisition of Northview provides an attractive opportunity to continue expansion into desirable suburban Chicago metropolitan communities in which Wintrust does not currently operate;
- Northview's community banking orientation and its compatibility with Wintrust and its subsidiaries;
- a review of the demographic, economic and financial characteristics of the markets in which Northview operates, including existing and potential competition and history of the market areas with respect to financial institutions;
- management's review of the business, operations, earnings and financial condition, including capital levels and asset quality, of Northview Bank since its de novo formation in 1993; and
- the likelihood of regulators approving the merger without undue conditions or delay.

While Wintrust's board of directors considered these and other factors, the board of directors did not assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. Wintrust's board of directors collectively made its determination with respect to the merger based on the conclusion reached by its members, based on the factors that each of them considered appropriate, that the merger is in the best interests of Wintrust's shareholders. The terms of the merger were the result of arm's-length negotiations between representatives of Wintrust and representatives of Northview.

FAIRNESS OPINION OF NORTHVIEW'S FINANCIAL ADVISOR

William Blair acted as financial advisor to Northview in connection with the merger. Northview selected William Blair based on its experience, expertise and familiarity with Northview and its business.

In connection with William Blair's engagement, Northview asked William Blair to evaluate the fairness of the merger consideration to Northview's shareholders from a financial point of view. At a meeting of Northview's board of directors held on May 4, 2004 to discuss and evaluate the merger, William Blair orally informed Northview's board of directors that it was prepared to deliver a written opinion as to the fairness of the merger consideration to Northview's shareholders from a financial point of view upon execution of the Agreement and Plan of Merger. On May 10, 2004, the date the Agreement and Plan of Merger was executed, William Blair delivered its written opinion to Northview's board of directors that, as of May 10, 2004, and based upon and

subject to various matters set forth in its opinion, the merger consideration was fair to Northview's shareholders from a financial point of view.

Northview did not impose any limitations upon the scope of investigation or procedures William Blair followed in connection with its opinion, nor did Northview give William Blair any specific instructions in connection with its opinion. The merger consideration was determined through arm's-length negotiations between Northview and Wintrust, although William Blair advised Northview during the merger negotiations.

William Blair's opinion is attached to this proxy statement/prospectus as Annex D and is incorporated into this proxy statement/prospectus by reference. You should read William Blair's opinion completely, along with this

summary of the opinion, to understand the assumptions made, procedures followed, matters considered and limitations of the review William Blair undertook in providing its opinion.

William Blair's opinion was provided for the use and benefit of Northview's board of directors and addresses only the fairness of the merger consideration to holders of Northview common stock from a financial point of view. William Blair's opinion does not address the merits of Northview's underlying decision to engage in the merger nor does it constitute a recommendation to any shareholder as to how such shareholder should vote with respect to the proposed merger. The summary of William Blair's opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, William Blair, among other things:

- reviewed the Agreement and Plan of Merger;
- reviewed certain audited historical financial statements of Northview and Wintrust for the years ended December 31, 2000, 2001, 2002 and 2003;
- reviewed the unaudited financial statements of Northview and Wintrust for the three months ended March 31, 2004;
- discussed Northview's historical and prospective business, financial position and financial performance with Northview's senior management;
- reviewed certain internal business, operating and financial information and forecasts of Northview (the "Forecasts"), prepared by Northview senior management;
- compared the merger consideration to selected market pricing multiples and ratios of certain other publicly traded companies William Blair deemed relevant;
- compared the merger consideration with the financial terms, to the extent publicly available, of certain other financial institution merger-and-acquisition transactions that William Blair deemed relevant;
- performed a discounted cash flow analysis of Northview on a

"stand-alone" basis and compared the merger consideration to the imputed values yielded by this analysis; and

- o reviewed certain other publicly available information on Northview and Wintrust.

on derecognition of income tax assets and liabilities, classification of current and deferred interest and penalties associated with tax positions, and income tax disclosures. Upon adoption, Income Taxes.

On July 1, 2007, we adopted the Emerging Issues Task Force Issue No. 06-2 (EITF 06-2), *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*. EITF 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

service period. Upon adoption, we recognized a $17 million charge to our beginning retained deficit as a cumulative effect of a change in accounting principle.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 gives us the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. SFAS No. 159 is effective for us beginning July 1, 2008, although early adoption is permitted. We are currently assessing the potential impact that electing fair value measurement would have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for us beginning July 1, 2008. We are currently assessing the potential impact that adoption of this statement would have on our financial statements.

Note 2 Inventories

Components of inventories were as follows:

(In millions)	September 30, 2007	June 30, 2007
Raw materials	**$ 290**	$ 435
Work in process	**252**	148
Finished goods	**636**	544
Inventories	**$ 1,178**	$ 1,127

Note 3 Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, stock awards, and shared performance stock awards.

Components of basic and diluted earnings per share were as follows:

	Three Months Ended September 30,	
(In millions, except earnings per share)	2007	2006
Net income available for common shareholders (A)	**$ 4,289**	$ 3,478
Weighted average outstanding shares of common stock (B)	**9,380**	9,929
Dilutive effect of employee stock options and awards	**133**	81

Common stock and common stock equivalents (C)	**9,513**	10,010
Earnings per share:		
Basic (A/B)	**$ 0.46**	$ 0.35
Diluted (A/C)	**$ 0.45**	$ 0.35

6

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. In addition, the following shared performance stock awards have been excluded from the calculation of diluted earnings per share because the number of shares ultimately issued is contingent on our performance against metrics established for the performance period.

	Three Months Ended September 30,	
(In millions)	**2007**	**2006**
Shares excluded from calculation of diluted EPS	**137**	677
Shared performance stock awards excluded from calculation of diluted EPS	**4**	9

Note 4 Unearned Revenue

The components of unearned revenue were as follows:

(In millions)	**September 30, 2007**	**June 30, 2007**
Volume licensing programs	**$ 8,489**	$ 9,334
Undelivered elements	**1,731**	1,839
Other	**1,352**	1,473
Unearned revenue	**$ 11,572**	$ 12,646

Unearned revenue by segment was as follows:

(In millions)	**September 30, 2007**	**June 30, 2007**
Client	**$ 2,673**	$ 2,875
Server and Tools	**3,449**	3,652
Microsoft Business Division	**5,080**	5,771
Other segments	**370**	348
Unearned revenue	**$ 11,572**	$ 12,646

Note 5 Stockholders Equity

Share Repurchases

On July 20, 2006, we announced that our Board of Directors authorized two new share repurchase programs: a $20.0 billion tender offer that was completed on August 17, 2006 and authorization for up to an additional $20.0 billion ongoing share repurchase program with an expiration of June 30, 2011. Under the tender offer, we repurchased approximately 155 million shares of common stock, or 1.5% of our common shares outstanding, for approximately $3.8 billion at a price per share of $24.75. On August 18, 2006, we announced that the authorization for the $20.0 billion ongoing share repurchase program had been increased by approximately $16.2 billion. As a result, we are authorized to repurchase additional shares in an amount up to $36.2 billion through June 30, 2011. As of September 30, 2007, approximately $12.8 billion remained of

the $36.2 billion approved repurchase amount. All repurchases were made using cash resources. The repurchase program may be suspended or discontinued at any time without notice. In any period, cash used in financing

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

activities related to common stock repurchased may differ from the comparable change in stockholders equity, reflecting timing differences between the recognition of share repurchase transactions and their settlement for cash.

We repurchased the following shares of common stock under the above-described repurchase plans:

	Three Months Ended September 30,	
	2007	**2006**
Shares of common stock repurchased (in millions)	**81**	285
Value of common stock repurchased (in billions)	**$ 2.3**	$ 7.0

Dividends

Our Board of Directors declared the following dividends:

Declaration Date	**Per Share Dividend**	**Record Date**	**Total Amount (in millions)**	**Payment Date**
(Fiscal year 2008)				
September 12, 2007	$ 0.11	November 15, 2007	$ 1,029(1)	December 13, 2007
(Fiscal year 2007)				
September 13, 2006	$ 0.10	November 16, 2006	$ 980	December 14, 2006

(1) This dividend was included in other current liabilities on our balance sheet as of September 30, 2007.

Note 6 Investment Income and Other

Components of investment income and other were as follows:

	Three Months Ended September 30,	
(In millions)	**2007**	**2006**
Dividends and interest	**$ 239**	$ 369
Net gains on investments	**151**	363
Net gains/(losses) on derivatives	**36**	(156)
Other	**(128)**	(9)
Investment income and other	**$ 298**	$ 567

Note 7 Product Warranties

We provide for the estimated costs of hardware and software warranties at the time the related revenue is recognized. For hardware warranty, we estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product

failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and country in which we do business, but generally include technical support, parts, and labor over a period generally ranging from 90 days to three years. For software warranty, we estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software.

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

The changes in our aggregate product warranty liabilities, which are included in other current liabilities and other long-term liabilities on our balance sheets, were as follows:

(In millions)	Amount
Balance at July 1, 2007	$ 850
Accruals for warranties issued	82
Adjustments to pre-existing warranties	11
Settlements of warranty claims	(86)
Balance at September 30, 2007	$ 857

Note 8 Contingencies

Government competition law matters. In March 2004, the European Commission issued a decision in its competition law investigation of us. The Commission concluded that we infringed European competition law by refusing to license to our competitors certain protocol technology in the Windows server operating systems and by including streaming media playback features in Windows desktop operating systems. The Commission ordered us to license the protocol technology to our competitors and to develop and make available a version of the Windows desktop operating system that does not include specified media playback software. The Commission also fined us 497 million ($605 million). We appealed the decision to the Court of First Instance. In July 2006, the European Commission determined that we had not complied with the technical documentation requirements of the 2004 Decision, and fined us 281 million ($351 million). We have appealed this fine to the Court of First Instance. We have expensed and paid both fines, pending resolution of appeals. In March 2007, the European Commission announced a new statement of objections. The new statement of objections claims that the pricing terms we proposed for licensing certain server protocol technology as required by the March 2004 decision are not reasonable. The statement of objections threatens to impose new fines of up to 500,000 ($706,075) per day from December 2005 to June 2006, up to 2 million ($2.8 million) per day from June to July 2006, and up to 3 million ($4.2 million) per day beginning August 2006. The maximum amount of the potential fine as of October 22, 2007 is $2.1 billion. On September 17, 2007, the Court of First Instance affirmed the European Commission s 2004 decision in almost all respects. On October 22, 2007, following discussions between the Commission and Microsoft, the Commission announced that steps we had taken brought us into full compliance with the March 2004 Decision. We announced the same day that we would not appeal the decision of the Court of First Instance to the European Court of Justice. On October 24, 2007, we announced that we had discontinued our appeals of two other Commission decisions, including the July 2006 Decision imposing a fine.

In December 2005, the Korean Fair Trade Commission (KFTC) ruled that we abused a market dominant position and engaged in unfair trade practices under the Korean Fair Trade Act. The KFTC stated we violated the Act by building instant messaging and media player features into the Windows PC operating system and streaming media technologies into the Windows server operating system. The KFTC imposed a fine of approximately $34 million which we have expensed and paid. The KFTC s order issued in February 2006 held that our integration of these media and messaging features into the Windows PC and server operating systems was an abuse of monopoly power and unlawful tying in violation of the Korean Fair Trade Act. The order required us to develop and distribute in Korea versions of Windows XP and its successors that do not include Windows Media Player or Windows Messenger functionality. We also may distribute a second modified version of Windows that contains the media and messenger features, as long as it includes promotional links to certain competing media players and instant messengers. We appealed the KFTC s decision to the Seoul High Court. In May 2006, the KFTC denied our motion for reconsideration of its ruling, but also dropped the element of its ruling that prohibited us from including media player or instant messaging functionality in any product other than

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

the Windows client operating system for which we have a 50% or greater market share. In October 2007, we submitted a request to the Seoul High Court to withdraw our appeal of the ruling, which was approved by the court and ends the litigation.

We are subject to a Consent Decree and Final Judgment that resolved lawsuits brought by the U.S. Department of Justice, 18 states, and the District of Columbia in two separate actions. The Consent Decree imposed various constraints on our Windows operating system businesses. Portions of the Consent Decree are scheduled to expire in November 2007 and we voluntarily agreed to extend expiration of other elements of the Consent Decree to November 2009. On October 16, 2007, some states filed a motion with the U.S. District Court for the District of Columbia seeking to have most of the provisions of the Final Judgment in the action to which they are party extended for five years. This motion is pending. On October 19, 2007, the U.S. Department of Justice and other states advised the Court that they will not seek any extension of the Final Judgments to which they are party.

In other ongoing investigations, various foreign governments and several state attorneys general have requested information from us concerning competition, privacy, and security issues.

Antitrust, unfair competition, and overcharge class actions. A large number of antitrust and unfair competition class action lawsuits have been filed against us in various state, federal and Canadian courts on behalf of various classes of direct and indirect purchasers of our PC operating system and certain other software products. We obtained dismissals of damages claims of indirect purchasers under federal law and in 15 states. Courts refused to certify classes in two additional states. We have reached agreements to settle all claims that have been made to date in 19 states.

Under the settlements, generally class members can obtain vouchers that entitle them to be reimbursed for purchases of a wide variety of platform-neutral computer hardware and software. The total value of vouchers that we may issue varies by state. We will make available to certain schools a percentage of those vouchers that are not issued or claimed (one-half to two-thirds depending on the state). The total value of vouchers we ultimately issue will depend on the number of class members who make claims and are issued vouchers. The maximum value of vouchers to be issued is approximately $2.7 billion. The actual costs of these settlements will be less than that maximum amount, depending on the number of class members and schools that are issued and redeem vouchers.

The settlements in all states have received final court approval. Cases in Arizona, Mississippi and Canada have not been settled. We estimate the total cost to resolve all of these cases will range between $1.7 billion and $1.9 billion. The actual cost depends on factors such as the quantity and mix of products for which claims will be made, the number of eligible class members who ultimately use the vouchers, the nature of hardware and software that is acquired using the vouchers, and the cost of administering the claims. At September 30, 2007, we have recorded a liability related to these claims of approximately $1.0 billion, which reflects our estimated exposure of $1.7 billion less payments made to date of approximately $626 million, mostly for administrative expenses and legal fees.

Other antitrust litigation and claims. In November 2004, Novell, Inc. filed a complaint in U.S. District Court in Utah, now consolidated with other cases in Maryland, asserting antitrust and unfair competition claims against us related to Novell s ownership of WordPerfect and other productivity applications during the period between June 1994 and March 1996. In June 2005, the trial court granted our motion to dismiss four of six claims of the complaint. Both parties appealed, and in October 2007, the court of appeals affirmed the decision of the trial court, remanding the case to that court for further proceedings.

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Patent and intellectual property claims. We are vigorously defending more than 45 patent infringement cases. In the case of Eolas Technologies, Inc. and University of California v. Microsoft, filed in U.S. District Court in Illinois in 1999, the plaintiffs alleged infringement by the browser functionality of Windows. In January 2004, the trial court entered final judgment of $565 million, and entered an injunction against distribution of any new infringing products, but stayed execution of the judgment and the injunction pending our appeal. We appealed and in March 2005 the U.S. Court of Appeals for the Federal Circuit reversed the decision and vacated the judgment, based on certain evidentiary rulings of the trial court. The appellate court also reversed the trial court s decision that the inventors had not engaged in inequitable conduct. The parties have agreed to a settlement pursuant to which Microsoft has taken a license to the Eolas patents. The settlement did not have a significant financial statement impact.

Microsoft and Alcatel-Lucent Matters. Microsoft and Alcatel-Lucent are parties to a number of legal proceedings relating to certain patents of each of the companies. Some of these actions began before the merger of Alcatel and Lucent in 2006. For simplicity, we refer to the post-merger entity of Alcatel-Lucent throughout the following discussion.

In 2003, we filed an action in U.S. District Court in California seeking a declaratory judgment that we do not infringe certain Alcatel-Lucent patents. Alcatel-Lucent has asserted claims under these patents against computer manufacturers that sell computers with our operating system and application software pre-installed. In February 2007, the jury returned a verdict in Alcatel-Lucent s favor in the first of a series of patent trials, and awarded $1.5 billion in damages. In September 2007, on our motions for judgment as a matter of law, the trial court overturned the jury verdict and entered orders dismissing plaintiff s claims on multiple grounds. Alcatel-Lucent has appealed. The trial court previously dismissed Alcatel-Lucent s claims with respect to a second group of patents and two patents in a third grouping. Trial on a consolidated group of all remaining patents is scheduled to begin in February 2008.

In March 2006, Alcatel-Lucent filed a lawsuit against us in U.S. District Court in California, claiming the Xbox 360 violates one of its patents. In response, we asserted counterclaims that Alcatel-Lucent infringes 10 Microsoft patents by its sales of various products. The case has been set for trial in April 2008.

In November 2006, Alcatel-Lucent filed two patent infringement cases against us in U.S. District Court in Texas, asserting Mediaroom and various networking functionalities violate seven of its patents. In April 2007, we asserted infringement counterclaims based on four of our patents relating to functionality similar to that accused by Alcatel-Lucent. The trial on all of the patents is set for January 2009.

In February 2007, we filed a complaint against Alcatel-Lucent with the International Trade Commission claiming Alcatel-Lucent is infringing four Microsoft patents related to our unified communications technology and seeking to prevent the import of certain Alcatel-Lucent unified communications products into the U.S. Trial of this matter began in October 2007.

In April 2007, the Multimedia Patent Trust filed a complaint against Microsoft, Dell, and Gateway in San Diego, California accusing the parties of infringing three video-related patents that originally belonged to Alcatel-Lucent. Alcatel-Lucent created the Multimedia Patent Trust prior to the companies merger and transferred the patents at issue to the trust.

The actual costs to resolve these cases will depend upon many factors such as the outcome of post-trial motions, any appeals, and the results of the remaining trials.

In *Z4 Technologies, Inc. v. Microsoft*, filed in U.S. District Court in Texas in September 2004, the plaintiff alleged that Microsoft Windows and Office product activation functionality violates its patent rights. In April

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

2006, the jury rendered a $115 million verdict against us. In August 2006, the trial court increased damages by $25 million pursuant to the jury s finding of willful infringement and awarded Z4 $2 million in attorneys fees. We have appealed the verdict.

In *Veritas Operating Corporation v. Microsoft*, filed in U.S. District Court in Washington in May 2006, a subsidiary of Symantec filed an action asserting trade secret misappropriation, breach of contract, and patent infringement relating to certain storage technologies. The case is scheduled for trial in May 2008.

Adverse outcomes in some or all of the matters described in this section may result in significant monetary damages or injunctive relief against us that would adversely affect distribution of our operating system or application products. We may enter into material settlements because of these risks.

Other. We are also subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial position, our results of operations, or our cash flows, these matters are subject to inherent uncertainties and management s view of these matters may change in the future.

As of September 30, 2007, we had accrued aggregate liabilities of approximately $700 million in other current liabilities and approximately $650 million in other long-term liabilities for all of the contingent matters described in this note. While we intend to vigorously defend these matters, there exists the possibility of adverse outcomes that we estimate could be up to $4.1 billion in aggregate beyond recorded amounts. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our financial position and on the results of operations for the period in which the effects become reasonably estimable.

Note 9 Segment Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. This standard requires segmentation based on our internal organization and reporting of revenue and operating income based upon internal accounting methods. Our financial reporting systems present various data for management to operate the business, including internal profit and loss statements prepared on a basis not consistent with U.S. GAAP. The segments are designed to allocate resources internally and provide a framework to determine management responsibility. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Our five segments are Client; Server and Tools; Online Services Business; Microsoft Business Division; and Entertainment and Devices Division. We have recast certain prior period amounts to conform to the way we internally manage and monitor performance at the segment level in fiscal year 2008.

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Segment revenue and operating income/(loss) was as follows:

(In millions)	Three Months Ended September 30, 2007	2006
Revenue		
Client	**$ 4,045**	$ 3,315
Server and Tools	**2,902**	2,496
Online Services Business	**671**	536
Microsoft Business Division	**4,108**	3,423
Entertainment and Devices Division	**1,928**	1,010
Unallocated and other	**108**	31
Consolidated	**$ 13,762**	$ 10,811
Operating income/(loss)		
Client	**$ 3,244**	$ 2,683
Server and Tools	**886**	802
Online Services Business	**(262)**	(99)
Microsoft Business Division	**2,660**	2,229
Entertainment and Devices Division	**134**	(145)
Reconciling amounts	**(744)**	(996)
Consolidated	**$ 5,918**	$ 4,474

Because of our integrated business structure, operating costs included in one segment may benefit other segments, and therefore these segments are not designed to measure operating income or loss directly related to the products included in each segment. Inter-segment cost commissions are estimated by management and used to compensate or charge each segment for such shared costs and to incent shared efforts. Management will continually evaluate the alignment of product development organizations, sales organizations, and inter-segment commissions for segment reporting purposes, which may result in changes to segment allocations in future periods.

Reconciling amounts include adjustments to conform with U.S. GAAP and corporate-level activity not specifically attributed to a segment. Significant internal accounting policies that differ from U.S. GAAP relate to revenue recognition, income statement classification, and accelerated amortization for depreciation, stock awards, and performance-based stock awards. In addition, certain revenue and expenses are excluded from segments or included in corporate-level activity, including certain legal settlements and accruals for legal contingencies.

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Significant reconciling items were as follows:

(In millions)	Three Months Ended September 30, 2007	2006
Summary of reconciling amounts:		
Corporate-level activity (1)	**$ (1,006)**	$ (940)
Stock-based compensation expense	**186**	(58)
Revenue reconciling amounts	**95**	(2)
Other	**(19)**	4
Total	**$ (744)**	$ (996)

(1) Corporate-level activity excludes stock-based compensation expense and revenue reconciling amounts presented separately in those line items.

Note 10 Acquisitions

On August 10, 2007, we acquired all of the outstanding shares of aQuantive, Inc. for $5.9 billion which was paid primarily in cash. Headquartered in Seattle, Washington, aQuantive is a digital marketing company which we expect will play a key role in the future development of our advertising business. We also believe the acquisition will help us build and support next-generation advertiser and publisher solutions in environments such as cross media planning, video-on-demand, and internet protocol television. aQuantive, Inc. was consolidated into our results of operations starting August 10, 2007, the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

(In millions)	aQuantive as of August 10, 2007
Cash and equivalents	$ 342
Accounts receivable, net	273
Other current assets	6
Property, plant and equipment	50
Intangible assets	938
Goodwill	5,270
Deferred income taxes	109
Other long-term assets	7
Total assets acquired	$ 6,995
Accrued compensation	37
Other current liabilities	683
Deferred income taxes	338
Other long-term liabilities	80

Total liabilities assumed	$	1,138
Net assets acquired	$	5,857

As a result of this acquisition, we recorded $5.3 billion of goodwill in our Online Services Business operating segment. Of the $938 million of acquired intangible assets, $24 million was assigned to in-process

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

research and development assets and was expensed during the quarter. The remaining acquired intangible assets include $476 million of customer relationships with a weighted average life of six years, $327 million of technology-based intangible assets with a weighted average useful life of four years, and $111 million of other intangible assets with a weighted average life of five years.

In addition to aQuantive, we acquired four other entities during the three months ended September 30, 2007 for total consideration of $147 million which was paid primarily in cash. All of the entities were consolidated within Microsoft starting on their respective acquisition dates. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in aggregate, were not material to our consolidated results of operations.

Note 11 Goodwill

(In millions)	Balance as of July 1, 2007	Acquisitions /purchase accounting adjustments	Balance as of September 30, 2007
Client	$ 77	$	**$ 77**
Server and Tools	580	70	**650**
Online Services Business	552	5,330	**5,882**
Microsoft Business Division	3,132		**3,132**
Entertainment and Devices Division	419	(9)	**410**
Total	$ 4,760	$ 5,391	**$ 10,151**

During the three months ended September 30, 2007, we recorded $5.4 billion of goodwill resulting from the five acquisitions described in Note 10 Acquisitions. None of the amount recorded as goodwill is expected to be deductible for tax purposes. The purchase price allocation for all of the acquisitions is preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities become available. Any change in the fair value of the net assets of the acquired company will change the amount of the purchase price allocable to goodwill.

Note 12 Intangible Assets

The components of finite-lived intangible assets were as follows:

	September 30, 2007			June 30, 2007		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Contract-based	**$ 1,003**	**$ (747)**	**$ 256**	$ 988	$ (727)	$ 261
Technology-based	**1,260**	**(465)**	**795**	916	(407)	509
Marketing-related	**161**	**(45)**	**116**	57	(39)	18
Customer-related	**601**	**(50)**	**551**	122	(32)	90
Total	**$ 3,025**	**$ (1,307)**	**$ 1,718**	$ 2,083	$ (1,205)	$ 878

Acquired intangibles are generally amortized on a straight-line basis over their weighted average lives. Intangible assets amortization expense was $102 million for the quarter ended September 30, 2007 and $38

Table of Contents

MICROSOFT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

million for the quarter ended September 30, 2006. The estimated future amortization expense related to intangible assets as of September 30, 2007 is expected to be $335 million for the remainder of fiscal year 2008, $422 million for fiscal year 2009, $373 million for fiscal year 2010, $296 million for fiscal year 2011, and $292 million for fiscal year 2012 and thereafter.

Note 13 Income Taxes

On July 1, 2007, we adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

Adopting FIN 48 had the following impact on our financial statements: increased current assets by $228 million, long-term assets by $1.1 billion, long-term liabilities by $2.1 billion, and our retained deficit by $395 million; and decreased our income taxes payable by $394 million. As of July 1, 2007, we had $7.1 billion of unrecognized tax benefits of which $5.3 billion, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of July 1, 2007 we had accrued interest related to uncertain tax positions of $863 million, net of federal income tax benefit, on our balance sheet.

We are currently under audit by the IRS for tax years 2000 through 2006. While it is possible that the first audit cycle, 2000 through 2003, may conclude in the next 12 months and that the unrecognized tax benefits we have recorded in relation to this audit may change compared to the liabilities recorded for the period, it is not possible to estimate the effect, if any, of any amount of such change during the next 12 months to previously recorded uncertain tax positions.

We are subject to income tax in many jurisdictions outside the United States, none of which are individually material to our financial position, statement of cash flows, or results of operations.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Microsoft Corporation

Redmond, Washington

We have reviewed the accompanying consolidated balance sheet of Microsoft Corporation and subsidiaries (the Corporation) as of September 30, 2007, and the related consolidated statements of income, stockholders equity, and cash flows for the three-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Corporation s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Microsoft Corporation and subsidiaries as of June 30, 2007, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated August 3, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

/s/ Deloitte & Touche LLP
Seattle, Washington
October 25, 2007

17

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Special Note About Forward-Looking Statements

Certain statements in Management s Discussion and Analysis (MD&A), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, plan, may, should, will, would, will be, result, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled Risk Factors (refer to Part II, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

OVERVIEW

The following MD&A is intended to help the reader understand the results of operations and financial condition of Microsoft Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements (Notes).

We develop, manufacture, license, and support a wide range of software products for many computing devices. Our software products include operating systems for servers, PCs, and intelligent devices; server applications for distributed computing environments; information worker productivity applications; business solutions applications; and software development tools. We provide consulting and product support services, and we train and certify system integrators and developers. We sell the Xbox video game console and games, the Zune digital music and entertainment device, PC games, and PC peripherals. Online communication and information services are delivered through our MSN portals, channels around the world, and through our search products.

Our revenue historically has fluctuated quarterly and has generally been the highest in the second quarter of our fiscal year due to corporate calendar year-end spending trends in our major markets and holiday season spending by consumers. Our Entertainment and Devices Division is particularly seasonal as its products are aimed at the consumer market and are in highest demand during the holiday shopping season. Typically, the Entertainment and Devices Division has generated over 40% of its yearly segment revenues in our second fiscal quarter. In fiscal year 2007, our revenue was highest in the third quarter due to the recognition of $1.7 billion of revenue previously deferred from the Express Upgrade to Windows Vista and Microsoft Office Technology Guarantee programs and pre-shipments of Windows Vista and the 2007 Microsoft Office system. The technology guarantee programs provided customers who purchased current products with free or discounted rights to Windows Vista and the 2007 Microsoft Office system when those products became available to consumers. We believe the seasonality of revenue is likely to continue in the future consistent with our experience prior to fiscal year 2007.

All growth and percentage comparisons refer to the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 unless otherwise noted.

Summary

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Revenue	**$ 13,762**	$ 10,811	27%
Operating income	**$ 5,918**	$ 4,474	32%
Diluted earnings per share	**$ 0.45**	$ 0.35	29%

Revenue growth was driven primarily by increased Xbox console and game sales, licensing of Windows Vista and the 2007 Microsoft Office system, and increased revenue associated with Windows Server and SQL Server. Revenue from licensing of Windows Vista and the 2007 Microsoft Office system reflects growth in our OEM channel and growth from Enterprise Agreement licenses. Foreign currency exchange rates accounted for a $205 million or two percentage point increase in revenue during the quarter.

Operating income growth was driven primarily by the increased revenue, partially offset by increased Xbox 360 product costs, warranty expenses, and inventory write-downs; data center costs in our Online Services Business; increased Windows Vista product costs; and increased sales and marketing expenses. The increase in sales and marketing expenses was primarily driven by increased headcount-related expenses and marketing costs related to corporate events and our retail channel. Total headcount-related expenses increased 6%, driven by a 12% increase in headcount over the past twelve months and an increase in salaries and benefits for existing headcount, partially offset by decreased stock-based compensation expense.

Worldwide macroeconomic factors have a strong correlation to business and consumer demand for our software, services, games, and Internet service offerings. We expect a broad continuation of economic conditions and demand during the remainder of fiscal year 2008. We also expect continued double digit revenue growth. Given our product launches in the second half of fiscal year 2007, we expect revenue growth to be higher in the first half of fiscal year 2008 than in the second half. We estimate worldwide PC shipments will grow between 10% and 12%. We expect a continued favorable impact from changes in year-over-year foreign currency exchange rates in fiscal year 2008. We expect our operating income growth rate to continue to exceed our revenue growth rate.

SEGMENT PRODUCT REVENUE/OPERATING INCOME (LOSS)

Revenue and operating income/(loss) amounts in this section are presented on a basis consistent with U.S. GAAP and include certain reconciling items attributable to each of the segments. Segment information appearing in Note 9   Segment Information is presented on a basis consistent with our current internal management reporting, in accordance with Statement of Financial Accounting Standards (SFAS   ) No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Certain corporate-level activity has been excluded from segment operating results and is analyzed separately. Prior period amounts have been recast to conform to the way we internally manage and monitor performance at the segment level in fiscal year 2008.

Client

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Revenue	**$ 4,138**	$ 3,316	25%
Operating income	**$ 3,367**	$ 2,660	27%

Client offerings consist of premium edition and standard Windows operating systems. Premium offerings are those that include additional functionality and are sold at a price above our standard versions. Premium offerings include Windows XP Professional, XP Media Center Edition, XP Tablet PC Edition, Vista Business, Vista Home Premium, and Vista Ultimate. Standard Windows operating systems include Windows XP Home and Windows Vista Home Basic. Client revenue growth correlates with the growth of purchases of PCs from OEMs that pre-install versions of Windows operating systems because the OEM channel accounts for approximately 80% of total Client revenue. The differences between unit growth rates and revenue growth rates from year to year are affected by changes in the mix of OEM Windows operating systems licensed with premium edition operating systems as a percentage of total OEM Windows operating systems licensed (OEM premium mix), changes in the geographical mix, and changes in the channel mix of products sold by large, multi-national OEMs versus those sold by local and regional system builders.

Client revenue increased primarily reflecting licensing of Windows Vista. OEM revenue increased $706 million or 25% driven by 20% growth in OEM license units. Revenue from commercial and retail licensing of Windows operating systems increased $116 million or 23% primarily due to strong sales from Enterprise Agreements and legalization efforts in Russia, China, and other emerging markets. The OEM Premium Mix increased 16 percentage points to 75% driven by increased consumer premium mix. Based on our estimates, total worldwide PC shipments from all sources grew 14% to 16% driven by demand in both emerging and mature markets.

Client operating income increased reflecting the increased revenue and decreased research and development expenses, partially offset by increased cost of revenue and sales and marketing expenses. Research and development expenses decreased $70 million or 23% primarily reflecting decreased headcount-related expenses. Cost of revenue increased $109 million or 102% driven by Windows Vista product costs while sales and marketing expenses increased $78 million or 36% primarily reflecting increased headcount-related expenses associated with our corporate sales force. Headcount-related expenses decreased 21%, driven by a 7% decrease in headcount over the past twelve months due to the redeployment of resources upon the completion of Windows Vista development and decreased stock-based compensation expense.

For the remainder of fiscal year 2008, we expect continued strength in OEM revenue growth, in line with strength in the PC market. We expect PC shipments to grow 10% to 12% for fiscal year 2008. We believe that PC unit growth rates will be higher in the consumer segment than in the business segment and higher in emerging markets than in mature markets.

Server and Tools

	Three months ended		
	September 30,		**Percentage**
(In millions, except percentages)	**2007**	**2006**	**Change**
Revenue	**$ 2,900**	$ 2,496	16%
Operating income	**$ 962**	$ 771	25%

Server and Tools offerings consist of server software licenses and client access licenses (CAL) for Windows Server, Microsoft SQL Server, and other server products. It also includes developer tools, training, certification, Microsoft Press, Premier and Professional product support services, and Microsoft Consulting Services. Server and Tools concentrates on licensing products, applications, tools, content and services that make information technology professionals and developers more productive and efficient. We use multiple channels for licensing including pre-installed OEM versions, licenses through partners, and licenses directly to end customers. We sell licenses both as one-time licenses and as multi-year volume licenses.

Server and Tools revenue increased reflecting growth in both product and services revenue. Server and server application revenue (including CAL revenue) and developer tools, training, and certificate revenue increased $262 million or 13% primarily driven by growth in new and recurring volume licensing of Windows

Table of Contents

Server and SQL Server products and reflects broad adoption of the Windows Platform and applications. Consulting, Premier and Professional product support services revenue increased $142 million or 32% primarily due to higher demand for consulting and support services in corporate enterprises. Foreign currency exchange rates accounted for a $65 million or two percentage point increase in revenue.

Server and Tools operating income increased primarily reflecting the increased revenue, partially offset by increased sales and marketing expenses and cost of revenue for services. Sales and marketing expenses increased $133 million or 18% primarily reflecting increased headcount-related expenses associated with our corporate sales force. Cost of revenue increased $76 million or 15% reflecting the growth in services provided. Headcount-related expenses increased 4%, driven by a 15% increase in headcount over the past twelve months and an increase in salaries and benefits for existing headcount, partially offset by decreased stock-based compensation expense.

We expect continued revenue growth in both product and services offerings related to the release of new versions of Visual Studio, Windows Server, and SQL Server products.

Online Services Business

	Three months ended		
	September 30,		Percentage
(In millions, except percentages)	**2007**	**2006**	**Change**
Revenue	**$ 671**	$ 536	25%
Operating loss	**$ (264)**	$ (102)	*

* *Not meaningful*

Online Services Business (OSB) provides personal communications services, such as e-mail and instant messaging, online information offerings, such as Live Search, and the MSN portals and channels around the world. OSB also provides a variety of online services such as MSN Internet Access and MSN Premium Web Services. We earn revenue primarily from online advertising, from consumers and partners through subscriptions and transactions generated from online paid services, and from MSN narrowband Internet access subscribers. We continue to launch new online initiatives and expect to do so in the future. In the first quarter of fiscal year 2008, we launched a new release of Windows Live Search and a beta version of Windows Live Suite and updated the MSN Video Services.

During the quarter ended September 30, 2007, we completed our acquisition of aQuantive, Inc. for consideration of $5.9 billion. We expect aQuantive, Inc., a digital marketing company, to play a key role in the future development of our advertising business. We believe the acquisition will help us build and support next-generation advertiser and publisher solutions in environments such as cross media planning, video-on-demand, and internet protocol television. aQuantive, Inc. was consolidated into our results of operations starting August 10, 2007, the acquisition date.

OSB revenue increased driven primarily by online advertising revenue which grew $120 million or 33% to $487 million. This increase reflects growth in our existing online advertising business for search, home page, email, and messaging services and includes $29 million of aQuantive online advertising revenue. During the quarter, we also recognized $51 million of aQuantive advertising agency revenue. The increase in revenue was partially offset by a $33 million or 32% decrease in access revenue. As of September 30, 2007 and 2006, we had approximately 405 million and 340 million Windows Live IDs, respectively.

OSB operating loss increased driven primarily by increased cost of revenue, increased sales and marketing expenses, and increased research and development expenses, partially offset by the increased revenue. OSB operating loss includes a $58 million loss from aQuantive, including a $24 million in-process research and

Table of Contents

development write-off and $30 million of amortization of intangible assets. The $151 million or 63% increase in cost of revenue was primarily driven by increased data center costs, online content expenses, and aQuantive-related expenses. Sales and marketing expenses increased $69 million or 42% primarily due to increased marketing costs and amortization of customer-related intangible assets, while research and development expenses increased $60 million or 28% primarily as a result of increased headcount-related expenses and product development costs. Headcount-related expenses increased 10%, driven by a 20% increase in headcount over the past twelve months and an increase in salaries and benefits for existing headcount, partially offset by decreased stock-based compensation expense.

For the remainder of fiscal year 2008, we expect continued growth in online advertising revenue as the portals, channels, and communications services continue to expand globally and the overall Internet advertising market continues to expand. Online advertising revenue is expected to benefit from our acquisition of aQuantive while revenue from narrowband Internet Access is expected to continue to decline.

Microsoft Business Division

	Three months ended		
	September 30,		Percentage
(In millions, except percentages)	**2007**	**2006**	**Change**
Revenue	**$ 4,111**	$ 3,419	20%
Operating income	**$ 2,694**	$ 2,227	21%

Microsoft Business Division (MBD) offerings consist of the Microsoft Office system and Microsoft Dynamics business solutions. Microsoft Office system products are designed to increase personal, team, and organization productivity through a range of programs, services, and software solutions. Growth of revenue from the Microsoft Office system offerings, which generate over 90% of MBD revenue, depends on our ability to add value to the core Office product set and to continue to expand our product offerings in other information worker areas such as enterprise content management, collaboration, unified communications, and business intelligence. Microsoft Dynamics products provide business solutions for financial management, customer relationship management, supply chain management, and analytics applications for small and mid-size businesses, large organizations, and divisions of global enterprises. We evaluate our results based upon the nature of the end user in two primary parts: business revenue which includes Microsoft Office system revenue generated through volume licensing agreements and Microsoft Dynamics revenue, and consumer revenue which includes revenue from retail packaged product sales and OEM revenue.

MBD revenue increased primarily reflecting licensing of the 2007 Microsoft Office system. Business revenue increased $663 million or 25% primarily as a result of growth in volume licensing agreement revenue and strong transactional license sales to businesses. The increase in business revenue also included an 18% increase in Microsoft Dynamics customer billings. Consumer revenue increased $29 million or 4% as a result of strong retail packaged product sales partially offset by a reduction of licenses sold through OEMs. Foreign currency exchange rates accounted for a $93 million or two percentage point increase in revenue.

MBD operating income increased reflecting the increased revenue, partially offset by increased sales and marketing expenses of $152 million or 22% and increased cost of revenue of $49 million or 29%. The increase in sales and marketing expenses primarily reflects increased headcount-related expenses associated with our corporate sales force. The increase in cost of revenue primarily reflects an increase in online costs related to the recent acquisition of Tellme Networks. Headcount-related expenses decreased 2%, driven by a decrease in stock-based compensation expense, partially offset by a 4% increase in headcount over the past twelve months and an increase in salaries and benefits for existing headcount.

For the remainder of fiscal year 2008, we expect revenue to continue to increase over the prior year due to the strong performance of 2007 Microsoft Office system. We continue to develop plans to grow revenue in new areas such as unified communications and through our existing portfolio of Microsoft Dynamics products.

Table of Contents

Entertainment and Devices Division

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Revenue	**$ 1,929**	$ 1,011	91%
Operating income/(loss)	**$ 165**	$ (142)	*

* *Not meaningful*

The Entertainment and Devices Division (EDD) products include the Microsoft Xbox video game console system, PC games, consumer software and hardware products, the Zune digital music and entertainment device, Mediaroom (our internet protocol television software), the Windows Mobile software platform, the Windows Embedded device operating system, and Windows Automotive. The success of video game consoles is determined by console innovation and quality, the portfolio of video game content for the console, online offerings, and the market share of the console. We believe that the functionality of the Xbox 360 console, games portfolio, and online offerings are well positioned relative to competitive consoles.

EDD revenue increased primarily due to increased Xbox 360 console and game sales. Xbox and PC game revenue increased $895 million or 148% as a result of increased Xbox 360 console sales, video game sales led by Halo 3, and Xbox 360 accessory sales. We shipped 1.8 million Xbox 360 consoles in the current quarter as compared to 0.9 million consoles in the first quarter of fiscal year 2007. Halo 3 was launched in September 2007 and generated approximately $330 million of revenue during the quarter. Increased revenue from sales of consumer hardware products, the Windows Mobile software platform, and Zune was offset by decreased revenue from Mediaroom.

EDD operating income increased primarily due to the increased revenue, partially offset by increased cost of revenue and increased sales and marketing expenses. Cost of revenue increased $584 million or 99% primarily driven by the increase in consoles sold and increased Xbox 360 console warranty expenses and inventory write-downs. Sales and marketing expenses increased $49 million or 23% primarily related to Xbox 360, including Halo 3, and Zune. Headcount-related expenses increased 6%, reflecting a 7% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by decreased stock-based compensation expense.

For the remainder of fiscal year 2008, we expect revenue to increase due to the increased sales of Xbox 360 consoles and related games, accessories, and services, and sales of Zune products. Revenue from existing mobility and embedded devices is expected to increase due to unit volume increases of Windows Mobile software driven by increased market demand for phone-enabled devices and Windows Embedded operating systems.

Corporate-Level Activity

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Corporate-level activity	**$ (1,006)**	$ (940)	7%

Certain corporate-level results are not allocated to our segments. Those results include expenses related to corporate operations related to broad-based sales and marketing, product support services, human resources, legal, finance, information technology, corporate development and procurement activities, research and development and other costs, and legal settlements and contingencies.

Corporate-level expenses increased primarily reflecting increased headcount-related expenses, partially offset by decreased costs for legal settlements and legal contingencies. Headcount-related expenses increased 15%, driven by an 8% increase in headcount and an increase in salaries and benefits for existing headcount.

Table of Contents

We incurred $40 million in legal charges during the three months ended September 30, 2007, compared with $87 million in legal charges during the three months ended September 30, 2006.

OPERATING EXPENSES

Cost of Revenue

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Cost of revenue	**$ 2,675**	$ 1,696	58%
As a percent of revenue	**19%**	16%	3ppt

Cost of revenue includes manufacturing and distribution costs for products sold and programs licensed, operating costs related to product support service centers and product distribution centers, costs incurred to support and maintain Internet-based products and services, warranty costs, inventory write-downs, and costs associated with the delivery of consulting services. Cost of revenue increased primarily driven by an increase in Xbox-related costs (increased product costs, warranty costs, and inventory write-downs), increased OSB data center costs, increased Windows Vista product costs, and costs associated with the growth in consulting services.

Research and Development

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Research and development	**$ 1,837**	$ 1,786	3%
As a percent of revenue	**13%**	17%	(4)ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. The increase in research and development expenses was primarily driven by increased headcount-related expenses of 1%, which reflects a 7% increase in headcount and an increase in salaries and benefits for existing headcount, offset by a decrease in stock-based compensation expense.

Sales and Marketing

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
Sales and marketing	**$ 2,614**	$ 2,191	19%
As a percent of revenue	**19%**	20%	(1)ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel and advertising, promotions, trade shows, seminars, and other programs. Sales and marketing expenses increased primarily as a result of increased headcount-related expenses and marketing costs related to corporate events and our retail channel. Headcount-related expenses increased 12%, reflecting both an 8% increase in headcount and an increase in salaries and benefits for existing headcount, partially offset by a decrease in stock-based compensation expense.

General and Administrative

(In millions, except percentages)	Three months ended September 30, 2007	2006	Percentage Change
General and administrative	**$ 718**	$ 664	8%
As a percent of revenue	**5%**	6%	(1)ppt

General and administrative costs include payroll, employee benefits, stock-based compensation expense and other headcount-related expenses associated with finance, legal, facilities, certain human resources, other administrative headcount, and legal and other administrative fees. General and administrative costs increased primarily reflecting increased consulting and professional fees, partially offset by decreased legal settlements expense. We incurred $40 million in legal charges during the three months ended September 30, 2007, compared with $87 million in legal charges during the three months ended September 30, 2006. Headcount-related expenses increased 4%, reflecting both a 14% increase in headcount and an increase in salaries and benefits for existing headcount.

INVESTMENT INCOME, INCOME TAXES, AND OTHER

Investment Income and Other

The components of investment income and other were as follows:

(In millions)	Three Months Ended September 30, 2007	2006	Change
Dividends and interest	**$ 239**	$ 369	$ (130)
Net gains on investments	**151**	363	(212)
Net gains/(losses) on derivatives	**36**	(156)	192
Other	**(128)**	(9)	(119)
Investment income and other	**$ 298**	$ 567	$ (269)

Dividends and interest income declined, reflecting a decline in the average balance of dividend and interest-bearing investments coupled with lower interest rates received on our fixed-income investments. Net recognized gains decreased primarily due to fewer gains on the sale of equity investments and losses on sales of fixed-income investments in the current period as compared to gains in the prior period. Other-than-temporary impairments were not material in both the three months ended September 30, 2007 and in the prior period. Other of $128 million includes the correction of several immaterial items from prior periods.

We experienced net gains on equity derivatives, interest rate derivatives, and commodity derivatives in the current period as compared to net losses in the prior period. Additionally, net losses on foreign exchange contracts were similar in both the current and prior periods. We use derivative instruments to manage exposures and to facilitate portfolio diversification related to interest rates, equity and commodity prices, and foreign currency markets. Gains and losses arising from derivatives not designated as accounting hedges are in large part economically offset by unrealized losses and gains, respectively, in the underlying securities which are recorded as a component of other comprehensive income. Net losses related to foreign currency contracts include changes in time value of options used to hedge anticipated foreign currency revenues.

We lend certain fixed-income and equity securities to increase investment returns. The loaned securities continue to be carried as investments on our balance sheet. Collateral and/or security interest is determined based upon the underlying security and the creditworthiness of the borrower. Cash collateral is recorded as an asset with a corresponding liability. We anticipate that the magnitude of securities loaned under this program will remain relatively consistent during the fiscal year.

Income Taxes

Our effective tax rate was 31% for the three months ended September 30, 2007 and 2006.

On July 1, 2007, we adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

Adopting FIN 48 had the following impact on our financial statements: increased current assets by $228 million, long-term assets by $1.1 billion, long-term liabilities by $2.1 billion, and our retained deficit by $395 million; and decreased our income taxes payable by $394 million. As of July 1, 2007, we had $7.1 billion of unrecognized tax benefits of which $5.3 billion, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of July 1, 2007, we had accrued interest related to uncertain tax positions of $863 million, net of federal income tax benefit, on our balance sheet.

FINANCIAL CONDITION

Cash and equivalents and short-term investments totaled $21.6 billion as of September 30, 2007, compared with $23.4 billion as of June 30, 2007. Equity and other investments were $9.7 billion as of September 30, 2007, compared with $10.1 billion as of June 30, 2007. Our investments consist primarily of fixed-income securities, diversified among industries and individual issuers. Our investments are generally liquid and investment grade. The portfolio is invested predominantly in U.S.-dollar-denominated securities, but also includes foreign-denominated securities in order to diversify financial risk. The portfolio is primarily invested in short-term securities to facilitate rapid deployment for immediate cash needs. As a result of the special dividend paid in the second quarter of fiscal year 2005 and shares repurchased, our retained deficit, including accumulated other comprehensive income, was $28.6 billion at September 30, 2007. Our retained deficit is not expected to impact our future ability to operate or pay dividends given our continuing profitability and strong cash and financial position.

Unearned Revenue

Unearned revenue from volume licensing programs represents customer billings, paid either upfront or annually at the beginning of each billing coverage period, that are accounted for as subscriptions with revenue recognized ratably over the billing coverage period. For certain other licensing arrangements, revenue attributable to undelivered elements, including free post-delivery telephone support and the right to receive unspecified upgrades/enhancements of Microsoft Internet Explorer on a when-and-if-available basis for Windows XP, is based on the sales price of those elements when sold separately and is recognized ratably on a straight-line basis over the life cycle of the related product. Other unearned revenue includes services, Microsoft Dynamics business solution products, Xbox Live subscriptions, advertising, and TV platform for which we have been paid upfront and earn the revenue when we provide the service or software, or otherwise meet the revenue recognition criteria.

Unearned revenue as of September 30, 2007 decreased $1.1 billion from June 30, 2007, reflecting recognition of unearned revenue from multi-year licensing that outpaced multi-year licensing deferrals by $845

million, a $108 million decrease in revenue deferred for undelivered elements, and a $121 million decrease primarily in unearned revenue for services and subscription services.

The following table outlines the expected recognition of unearned revenue as of September 30, 2007:

(In millions)	Recognition of Unearned Revenue
Three months ended:	
December 31, 2007	**$ 4,052**
March 31, 2008	**2,992**
June 30, 2008	**1,952**
September 30, 2008	**791**
Thereafter	**1,785**
Unearned revenue	**$ 11,572**

See Note 4 Unearned Revenue (Part I, Item 1).

Cash Flows

Cash flow from operations for the three months ended September 30, 2007, increased $1.8 billion from the first quarter of fiscal year 2007 to $5.9 billion, due to increased cash collections from customers reflecting our continued revenue growth and $2.8 billion from conversion of accounts receivable to cash. The increase also includes an $845 million reduction in cash used for other current assets reflecting the inventory and product costs cash outflow in the first quarter of fiscal year 2007 related to Xbox 360 consoles. Cash used for financing was $3.2 billion in the first quarter of fiscal year 2008, a decrease of $5.0 billion from the corresponding period in fiscal year 2007. The decrease reflects $2.9 billion of common stock repurchases in the three months ended September 30, 2007, compared with $7.7 billion in the prior year that included the impact of our tender offer completed on August 17, 2006. Cash used for investing was $2.3 billion in the first quarter of fiscal year 2008, as compared with cash provided by investing of $6.5 billion in the first quarter of fiscal year 2007. This $8.7 billion decrease in cash from investing activities includes a $5.1 billion increase in cash paid for acquisition of companies, reflecting the purchase of aQuantive in the first quarter of fiscal year 2008, and a $3.2 billion decrease in cash from combined investment purchases, sales, and maturities.

We have no material long-term debt. Stockholders equity at September 30, 2007, was $32.1 billion. We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology. Additions to property and equipment will continue, including new facilities, data centers, and computer systems for research and development, sales and marketing, support, and administrative staff. We have operating leases for most U.S. and international sales and support offices and certain equipment. We have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of requirements for capital resources.

On July 20, 2006, we announced that our Board of Directors authorized two new share repurchase programs: a $20.0 billion tender offer that was completed on August 17, 2006 and authorization for up to an additional $20.0 billion ongoing share repurchase program with an expiration of June 30, 2011. Under the tender offer, we repurchased approximately 155 million shares of common stock, or 1.5% of our common shares outstanding, for approximately $3.8 billion at a price per share of $24.75. On August 18, 2006, we announced that the authorization for the $20.0 billion ongoing share repurchase program had been increased by approximately $16.2 billion. As a result, we are authorized to repurchase additional shares in an amount up to $36.2 billion through June 30, 2011. As of September 30, 2007, approximately $12.8 billion remained of the $36.2 billion approved repurchase amount.

Our Board of Directors declared the following dividends:

Declaration Date	Per Share Dividend	Record Date	Total Amount (in millions)	Payment Date
(Fiscal year 2008)				
September 12, 2007	$ 0.11	November 15, 2007	$ 1,029 (1)	December 13, 2007
(Fiscal year 2007)				
September 13, 2006	$ 0.10	November 16, 2006	$ 980	December 14, 2006

(1) This dividend was included in other current liabilities on our balance sheet as of September 30, 2007.

We believe existing cash and equivalents and short-term investments, together with funds generated from operations, should be sufficient to meet operating requirements, regular quarterly dividends, and planned share repurchases. Our philosophy regarding the maintenance of a balance sheet with a large component of cash and short-term investments, as well as equity and other investments, reflects our views on potential future capital requirements relating to research and development, creation and expansion of sales distribution channels, investments and acquisitions, share dilution management, legal risks, and challenges to our business model. We regularly assess our investment management approach in view of our current and potential future needs.

Off-Balance Sheet Arrangements

We provide indemnifications of varying scope and amount to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products. We evaluate estimated losses for such indemnifications under SFAS No. 5, *Accounting for Contingencies,* as interpreted by FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. We consider factors such as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, we have not encountered material costs as a result of such obligations and have not accrued any material liabilities related to such indemnifications in our financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

On July 1, 2007, we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Upon adoption, we recognized a $395 million charge to our beginning retained deficit as a cumulative effect of a change in accounting principle. See Note 13 Income Taxes (Part I, Item 1).

On July 1, 2007, we adopted the Emerging Issues Task Force Issue No. 06-2 (EITF 06-2), *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*. EITF 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite service period. Upon adoption, we recognized a $17 million charge to our beginning retained deficit as a cumulative effect of a change in accounting principle.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 gives us the irrevocable option to carry many financial assets and liabilities

at fair values, with changes in fair value recognized in earnings. SFAS No. 159 is effective for us beginning July 1, 2008, although early adoption is permitted. We are currently assessing the potential impact that electing fair value measurement would have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning July 1, 2008. We currently are assessing the potential impact that adoption of SFAS No. 157 would have on our financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management s application of accounting policies. Critical accounting policies for us include revenue recognition, impairment of investment securities, impairment of goodwill, accounting for research and development costs, accounting for contingencies, accounting for income taxes, and accounting for stock-based compensation.

We account for the licensing of software in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*. The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. For some of our products, customers receive certain elements of our products over a period of time. These elements include free post-delivery telephone support and the right to receive unspecified upgrades/enhancements of Microsoft Internet Explorer on a when-and-if-available basis. The fair value of these elements is recognized over the estimated life cycle for the Windows XP and previous PC operating systems. For Windows Vista, there are no significant undelivered elements and accordingly, no license revenue is deferred for Windows Vista sales. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, and changes to a product s estimated life cycle could materially impact the amount of earned and unearned revenue. Judgment also is required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and SAB Topic 5M, *Accounting for Noncurrent Marketable Equity Securities*, provide guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we employ a systematic methodology quarterly that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, we may incur future impairments.

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (July 1 for us) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale or

disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. We allocate goodwill to reporting units based on the reporting unit expected to benefit from the combination. We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach.

We account for research and development costs in accordance with applicable accounting pronouncements, including SFAS No. 2, *Accounting for Research and Development Costs*, and SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. SFAS No. 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached after all high-risk development issues have been resolved through coding and testing. This is generally shortly before the products are released to manufacturing. We determined that technological feasibility was reached with Windows Vista and the 2007 Microsoft Office system during the second quarter of fiscal year 2007 and accordingly, we capitalized approximately $120 million of software development costs. The amortization of these costs will be included in cost of revenue over the estimated life of the products. Previously, costs incurred prior to technological feasibility were not material and were expensed as incurred.

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. SFAS No. 5, *Accounting for Contingencies*, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our results of operations, financial position, or our cash flows.

SFAS No. 109, *Accounting for Income Taxes*, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows. Accruals for uncertain tax positions are provided for in accordance with the requirements of FIN 48.

We account for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment*. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

We account for product warranties in accordance with SFAS No. 5, *Accounting for Contingencies*. We provide for the estimated costs of hardware and software warranties at the time the related revenue is recognized.

For hardware warranty, we estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and country in which we do business, but generally include technical support, parts, and labor over a period generally ranging from 90 days to three years. For software warranty, we estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. We reevaluate our estimates at least quarterly to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to foreign currency, interest rate, fixed-income, equity, and commodity price risks. A portion of these risks is hedged, but fluctuations could impact our results of operations, financial position, and cash flows. We hedge a portion of anticipated revenue and accounts receivable exposure to foreign currency fluctuations, primarily with option contracts. We monitor our foreign currency exposures daily to maximize the overall effectiveness of our foreign currency hedge positions. Principal currencies hedged include the euro, Japanese yen, British pound, and Canadian dollar. Fixed-income securities and interest rate derivatives are subject primarily to interest rate risk. The portfolio is diversified and structured to minimize credit risk. Securities held in our equity and other investments portfolio and equity derivatives are subject to price risk, and are generally not hedged. However, we use put-call collars to hedge our price risk on certain equity securities that are held primarily for strategic purposes. Commodity derivatives held for the purpose of portfolio diversification are subject to commodity price risk.

We use a value-at-risk (VaR) model to estimate and quantify our market risks. VaR is the expected loss, for a given confidence level, in fair value of our portfolio due to adverse market movements over a defined time horizon. The VaR model is not intended to represent actual losses in fair value, but is used as a risk estimation and management tool. The model used for currencies, equities, and commodities is geometric Brownian motion, which allows incorporation of optionality with regard to these risk exposures. For interest rate risk, exposures such as key rate durations and spread durations are used in calculations that reflect the principle that fixed-income security prices revert to maturity value over time.

VaR is calculated by computing the exposures of each holding s market value to a range of over 1,000 equity, fixed-income, foreign exchange, and commodity risk factors. The exposures are then used to compute the parameters of a distribution of potential changes in the total market value of all holdings, taking into account the weighted historical volatilities of the different rates and prices and the weighted historical correlations among the different rates and prices. The VaR is then calculated as the total loss that will not be exceeded at the 97.5 percentile confidence level or, alternatively stated, the losses could exceed the VaR in 25 out of 1,000 cases. Several risk factors are not captured in the model, including liquidity risk, operational risk, credit risk, and legal risk.

Certain securities in our equity portfolio are held for strategic purposes. We hedge the value of a portion of these securities through the use of derivative contracts such as put-call collars. In these arrangements, we hedge a security s equity price risk below the purchased put strike and forgo most or all of the benefits of the security s appreciation above the sold call strike. We also hold equity securities for general investment return purposes. We have incurred material impairment charges related to these securities in previous periods.

The VaR amounts disclosed below are used as a risk management tool and reflect an estimate of potential reductions in fair value of our portfolio. Losses in fair value over the specified holding period can exceed the reported VaR by significant amounts and can also accumulate over a longer time horizon than the specified holding period used in the VaR analysis. VaR amounts are not necessarily reflective of potential accounting losses, including determinations of other-than-temporary losses in fair value in accordance with U.S. GAAP.

VaR numbers are shown separately for interest rate, currency rate, equity price, and commodity price risks. These VaR numbers include the underlying portfolio positions and related hedges. We use historical data to

estimate VaR. Given the reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no fundamental changes or shifts in market conditions. An inherent limitation in VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk.

The following table sets forth the one-day VaR for substantially all of our positions as of and for the three months ended September 30, 2007, and as of June 30, 2007:

(In millions) Risk Categories	September 30, 2007	June 30, 2007	Three months ended September 30, 2007 Average	 High	 Low
Interest rates	**$ 36**	$ 34	**$ 34**	**$ 37**	**$ 31**
Currency rates	**91**	55	**77**	**98**	**60**
Equity prices	**58**	60	**56**	**60**	**52**
Commodity prices	**7**	7	**6**	**7**	**5**

Total one-day VaR for the combined risk categories was $126 million at September 30, 2007 and $95 million at June 30, 2007. The total VaR is 34% less at September 30, 2007, and 39% less at June 30, 2007, than the sum of the separate risk categories in the above table due to the diversification benefit of the overall portfolio.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On September 17, 2007, the European Union Court of First instance affirmed in almost all respects the 2004 decision of the European Commission against Microsoft under European competition law, leaving in place a previously-levied fine of 497 million ($605 million). The primary issues on appeal were integration of media player functionality into the Windows operating system and the requirement to license Windows communication protocols to competing server operating system vendors. On October 22, 2007, following discussions between the Commission and Microsoft, the Commission announced that steps we had taken brought us into full compliance with the March 2004 Decision. We announced the same day that we would not appeal the decision of the Court of First Instance to the European Court of Justice. On October 24, 2007, we announced that we had discontinued our appeals of two other Commission decisions, including the July 2006 Decision imposing a fine.

In September 2007, in the patent infringement lawsuit brought by Alcatel-Lucent, the U.S. District Court in San Diego, California overturned a $1.5 billion jury verdict against us and entered orders dismissing plaintiff s claims on multiple grounds. Alcatel-Lucent has appealed.

See Note 8 Contingencies (Part I, Item 1) for more information about these and other legal proceedings in which we are involved.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and trading price of our common stock.

Challenges to our business model may reduce our revenues and operating margins. Our business model has been based upon customers paying a fee to license software that we developed and distributed. Under this license-based software model, software developers bear the costs of converting original ideas into software products through investments in research and development, offsetting these costs with the revenue received from the distribution of their products. In recent years, certain open source software business models have evolved into a growing challenge to our license-based software model. Open source commonly refers to software whose source code is subject to a license allowing it to be modified, combined with other software and redistributed, subject to restrictions set forth in the license. A number of commercial firms compete with us using an open source business model by modifying and then distributing open source software to end users at nominal cost and earning revenue on complementary services and products. These firms do not have to bear the full costs of research and development for the software. A prominent example of open source software is the Linux operating system. Although we believe our products provide customers with significant advantages in security, productivity, and total cost of ownership, the popularization of the open source software model continues to pose a significant challenge to our business model, including continuing efforts by proponents of open source software to convince governments worldwide to mandate the use of open source software in their purchase and deployment of software products. To the extent open source software gains increasing market acceptance, sales of our products may decline, we may have to reduce the prices we charge for our products, and revenue and operating margins may consequently decline.

Another development is the software-as-a-service business model, by which companies provide applications, data, and related services over the Internet. Providers use primarily advertising or subscription-based revenue models. Recent advances in computing and communications technologies have made this model viable and enabled the rapid growth of some of our competitors. We are devoting significant resources toward developing our own competing software plus services strategies. It is uncertain whether these strategies will prove successful.

We face intense competition. We continue to experience intense competition across all markets for our products and services. Our competitors range in size from Fortune 100 companies to small, specialized single-

product businesses and open source community-based projects. Although we believe the breadth of our businesses and product portfolio are a competitive advantage, our competitors that are focused on narrower product lines may be more effective in devoting technical, marketing, and financial resources to compete with us. In addition, barriers to entry in our businesses generally are low and products, once developed, can be distributed broadly and quickly at relatively low cost. Open source software vendors are devoting considerable efforts to developing software that mimics the features and functionality of our products. In response to competition, we are developing versions of our products with basic functionality that are sold at lower prices than the standard versions. These competitive pressures may result in decreased sales volumes, price reductions, and/or increased operating costs, such as for marketing and sales incentives, resulting in lower revenue, gross margins and operating income.

We may not be able to adequately protect our intellectual property rights. Protecting our global intellectual property rights and combating unlicensed copying and use of software and other intellectual property is difficult. While piracy adversely affects U.S. revenue, the impact on revenue from outside the U.S. is more significant, particularly in countries where laws are less protective of intellectual property rights. Similarly, the absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. Throughout the world, we actively educate consumers about the benefits of licensing genuine products and obtaining indemnification benefits for intellectual property risks, and we educate lawmakers about the advantages of a business climate where intellectual property rights are protected. However, continued educational and enforcement efforts may fail to enhance revenue. Reductions in the legal protection for software intellectual property rights or additional compliance burdens could both adversely affect revenue.

Third parties may claim we infringe their intellectual property rights. From time to time we receive notices from others claiming we infringe their intellectual property rights. The number of these claims may grow. To resolve these claims we may enter into royalty and licensing agreements on less favorable terms, stop selling or redesign affected products, or pay damages to satisfy indemnification commitments with our customers. Such agreements may cause operating margins to decline. We have made and expect to continue making significant expenditures to settle claims related to the use of technology and intellectual property rights as part of our strategy to manage this risk.

We may not be able to protect our source code from copying if there is an unauthorized disclosure of source code. Source code, the detailed program commands for our operating systems and other software programs, is critical to our business. Although we license portions of our application and operating system source code to a number of licensees, we take significant measures to protect the secrecy of large portions of our source code. If an unauthorized disclosure of a significant portion of our source code occurs, we could potentially lose future trade secret protection for that source code. This could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins. Unauthorized disclosure of source code could also increase the security risks described in the next paragraph.

Security vulnerabilities in our products could lead to reduced revenues or to liability claims. Maintaining the security of computers and computer networks is a critical issue for us and our customers. Hackers develop and deploy viruses, worms, and other malicious software programs that attack our products. Although this is an industry-wide problem that affects computers across all platforms, it affects our products in particular because hackers tend to focus their efforts on the most popular operating systems and programs and we expect them to continue to do so. We devote significant resources to address security vulnerabilities through:

- engineering more secure products;
- enhancing security and reliability features in our products;
- helping our customers make the best use of our products and services to protect against computer viruses and other attacks;
- improving the deployment of software updates to address security vulnerabilities;

- investing in mitigation technologies that help to secure customers from attacks even when such software updates are not deployed; and

- providing customers online automated security tools, published security guidance, and security software such as firewalls, anti-virus, and other security software.

The cost of these steps could reduce our operating margins. Despite these efforts, actual or perceived security vulnerabilities in our products could lead some customers to seek to return products, to reduce or delay future purchases, or to use competing products. Customers may also increase their expenditures on protecting their existing computer systems from attack, which could delay adoption of new technologies. Any of these actions by customers could adversely affect our revenue. In addition, actual or perceived vulnerabilities may lead to claims against us. Although our license agreements typically contain provisions that eliminate or limit our exposure to such liability, there is no assurance these provisions will be held effective under applicable laws and judicial decisions.

We are subject to government litigation and regulatory activity that affects how we design and market our products. As a leading global software maker, we receive close scrutiny from government agencies under U.S. and foreign competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. For example, we have been involved in the following actions.

Lawsuits brought by the U.S. Department of Justice, 18 states, and the District of Columbia in two separate actions were resolved through a Consent Decree that took effect in November 2001 and a Final Judgment entered in November 2002. These proceedings imposed various constraints on our Windows operating system businesses. These constraints include limits on certain contracting practices, mandated disclosure of certain software program interfaces and protocols, and rights for computer manufacturers to limit the visibility of certain Windows features in new PCs. Although we believe we are in full compliance with these rules, if we fail to comply with them, additional restrictions could be imposed on us that would adversely affect our business.

In March 2004, the European Commission ordered us to create new versions of Windows that do not include certain multimedia technologies and to provide our competitors with specifications for how to implement certain proprietary Windows communications protocols in their own products. In September 2007, the European Court of First Instance dismissed our appeal of this ruling. The design of these special versions of Windows and the terms on which we make our protocol technology available are closely regulated by the Commission. The product design aspect of the Commission decision may limit our ability to innovate in Windows in the future, diminish the developer appeal of the Windows platform, and increase our product development costs. The availability of protocol licenses may enable competitors to develop software products that better mimic the functionality of our own products which could result in decreased sales of our products.

In February 2006, the Korean Fair Trade Commission (KFTC) issued a ruling requiring us to offer two versions of Windows PC operating systems, one with Windows Media Player and instant messaging software removed and another with those functionalities included but also including promotional links to competing software products. These remedies could adversely affect the utility and competitive position of Windows PC operating systems in Korea.

Government regulatory actions and court decisions may hinder our ability to provide the benefits of our software to consumers and businesses, thereby reducing the attractiveness of our products and the revenues that come from them. New legal actions could be initiated at any time, either by these or other governments or private claimants, including with respect to new versions of Windows or other Microsoft products. The outcome of such legal actions could adversely affect us in a variety of ways, including:

- We may have to choose between withdrawing products from certain geographies to avoid fines or designing and developing alternative versions of those products to comply with government rulings, which may entail removing functionality that customers want or developers rely on.

We may be required to make available licenses to our proprietary protocol technologies on terms that do not reflect their fair market value or do not protect our associated intellectual property.

If not reversed or limited on appeal, the rulings described above may be cited as a precedent in other competition law proceedings. Our software and services online offerings are subject to government regulation of the Internet domestically and internationally in many areas including user privacy, telecommunications, data protection, and online content. The application of these laws and regulations to our business is often unclear and sometimes may conflict. Compliance with these regulations may involve significant costs or require changes in business practices that result in reduced revenue. Noncompliance could result in penalties being imposed on us or orders that we stop doing the alleged noncompliant activity.

Our business depends largely on our ability to attract and retain talented employees. Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. We are limited in our ability to recruit internationally by restrictive domestic immigration laws. If we are less successful in our recruiting efforts, or if we are unable to retain key employees, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

Delays in product development schedules may adversely affect our revenues. The development of software products is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products could adversely affect our revenue.

We make significant investments in new products and services that may not be profitable. We have made and will continue to make significant investments in research, development, and marketing for new products, services, and technologies, including Windows Vista, the 2007 Microsoft Office system, Xbox 360, Live Search, Windows Server, Zune, and Windows Live. Investments in new technology are inherently speculative. Commercial success depends on many factors including innovativeness, developer support, and effective distribution and marketing. We may not achieve significant revenue from new product and service investments for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced historically.

Adverse economic conditions may harm our business. Inflation, softness in corporate information technology spending, or other changes in general economic conditions that affect demand for computer hardware or software could adversely affect our revenue or our investment portfolio. If overall market demand for PCs, servers, and other computing devices declines significantly, or consumer or corporate spending for such products declines, our revenue will be adversely affected. In addition, our revenue would be unfavorably impacted if customers reduce their purchases of new software products or upgrades because new offerings such as Windows Vista and the 2007 Microsoft Office system are not perceived as providing significant new functionality or other value to prospective purchasers.

We have claims and lawsuits against us that may result in adverse outcomes. We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of the claims pending against us may result in significant monetary damages or injunctive relief against us that could adversely affect our ability to conduct our business. Although management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position, results of operations, or cash flows, the litigation and other claims are subject to inherent uncertainties and management s view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position, results of

operations, and cash flows for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

We may have additional tax liabilities. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our income tax provision, net income, or cash flows in the period or periods for which that determination is made.

Our consumer hardware products may experience quality or supply problems. Our hardware products such as the Xbox 360 console are highly complex and can have defects in design, manufacture, or associated software. We could incur significant expenses, lost revenue, and reputational harm if we fail to detect or effectively address such issues through design, testing, or warranty repairs. We obtain some components of our hardware devices from sole suppliers. If a component delivery from a sole-source supplier is delayed or becomes unavailable or industry shortages occur, we may be unable to obtain replacement supplies on a timely basis, resulting in reduced sales. Either component shortages or excess inventory may require us to record charges to cost of revenue. Xbox 360 consoles are assembled in Asia; disruptions in the supply chain may result in console shortages that would affect our revenues and operating margins.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings. Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively impacting our results of operations.

We operate a global business that exposes us to additional risks. We operate in over 100 countries and a significant part of our revenue comes from international sales. Pressure to make our pricing structure uniform might require that we reduce the sales price of our software in the United States and other countries. Operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment; changes in regulatory requirements for software; social, political, labor or economic conditions in a specific country or region; and difficulties in staffing and managing foreign operations. Although we hedge a portion of our international currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our net revenues.

Catastrophic events or geo-political conditions may disrupt our business. A disruption or failure of our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event could cause delays in completing sales, providing services or performing other mission-critical functions. Our corporate headquarters, a significant portion of our research and development activities, and certain other critical business operations are located in the Seattle, Washington area, and we have other business operations in the Silicon Valley area of California, both of which are near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. Abrupt political change, terrorist activity, and armed conflict pose a risk of general economic disruption in affected countries, thus increasing our operating costs. These conditions may lend additional uncertainty to the timing and budget for technology investment decisions by our customers.

Acquisitions and joint ventures may have an adverse effect on our business. We expect to continue making acquisitions or entering into joint ventures as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we don t realize a satisfactory return on the investment we make, or that we experience difficulty in the integration of new employees, business systems, and technology, or diversion of management s attention from our other businesses. These factors could adversely affect our operating results or financial condition.

Improper disclosure of personal data could result in liability and harm our reputation. We store and process significant amounts of personally identifiable information. It is possible that our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Such disclosure could harm our reputation and subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. Our software products also enable our customers to store and process personal data. Perceptions that our products do not adequately protect the privacy of personal information could inhibit sales of our products.

Other risks that may affect our business. Other factors that may affect our performance may include sales channel disruption, such as the bankruptcy of a major distributor, and our ability to implement operating cost structures that align with revenue growth.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and (b) are inapplicable.

(c) STOCK REPURCHASES

Period	**(a) Total number of shares purchased**	**(b) Average price paid per share**	**(c) Total number of shares purchased as part of publicly announced plans or programs**	**(d) Maximum number of shares (or approximate dollar value of shares) that may yet be purchased under the plans or programs (in millions)**
July 1, 2007 July 31, 2007	22,064,586	$ 29.91	22,064,586	$ 14,478
August 1, 2007 August 31, 2007	3,700,000	28.39	3,700,000	$ 14,373
September 1, 2007 September 30, 2007	54,833,400	28.88	54,833,400	$ 12,789
	80,597,986		80,597,986	

On July 20, 2006, we announced that our Board of Directors authorized two new share repurchase programs: a $20.0 billion tender offer that was completed on August 17, 2006 and authorization for up to an additional $20.0 billion ongoing share repurchase program that expires on June 30, 2011. Under the tender offer, we repurchased approximately 155 million shares of common stock, or 1.5% of our common shares outstanding, for approximately $3.8 billion at a price per share of $24.75. On August 18, 2006, we announced that the authorization for the $20.0 billion ongoing share repurchase program had been increased by approximately $16.2 billion. As a result, we are authorized to repurchase additional shares in an amount up to $36.2 billion through June 30, 2011. The repurchase program may be suspended or discontinued at any time without prior notice. During the first quarter of fiscal year 2008, we repurchased 80.6 million shares for $2.3 billion under the plans described in this paragraph. The transactions occurred in open market purchases and pursuant to a trading plan under Rule 10b5-1.

Table of Contents

Item 6. Exhibits

15	Letter re: unaudited interim financial information
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Items 3, 4, and 5 are not applicable and have been omitted.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 25, 2007

Microsoft Corporation

By: /s/ FRANK H. BROD

Frank H. Brod

Corporate Vice President, Finance and Administration;

Chief Accounting Officer

(Principal Authorized Officer)

40