

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) July 28, 2005

**Microsoft Corporation**

(Exact Name of Registrant as Specified in Its Charter)

Washington

(State or Other Jurisdiction of Incorporation)

0-14278

(Commission File Number)

91-1144442

(IRS Employer Identification No.)

One Microsoft Way, Redmond, Washington

(Address of Principal Executive Offices)

98052-6399

(Zip Code)

(425) 882-8080

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

(c) On August 4, 2005, Microsoft Corporation (“Microsoft”) issued a press release to announce that B. Kevin Turner, age 40, is joining Microsoft as Chief Operating Officer, beginning September 8, 2005. Prior to joining Microsoft, Mr. Turner was Executive Vice President and President and Chief Executive Officer of the SAM’S CLUB division of Wal-Mart Stores, Inc. From September 2001 to August 2002, he served as Executive Vice President and Chief Information Officer of Wal-Mart’s Information Systems Division. From March 2000 to September 2001, he served as its Senior Vice President and Chief Information Officer of the Information Systems Division.

Mr. Turner’s employment at Microsoft will be at-will. He will receive a salary of \$570,000 per year. He will be eligible for an annual performance bonus ranging from 0% to 100% of eligible salary. In addition, Mr. Turner will participate in Microsoft’s Shared Performance Stock Award (“SPSA”) Program, with a target SPSA award of 624,000 shares of Microsoft common stock. The actual size of the award will be determined based on the company’s performance against the program measures.

In connection with his employment, Mr. Turner will be eligible to receive benefits under Microsoft’s executive relocation assistance program, including having Microsoft arrange for a third party to purchase his current primary residence at its appraised value if it is not sold as of a mutually agreed date.

To replace equity compensation Mr. Turner forfeited upon leaving his previous employer, Mr. Turner will receive a stock award for 320,000 shares of Microsoft common stock that will vest 25% on September 1, 2008, 25% on September 1, 2010, and 50% upon retirement from the company at age sixty or older, and an on-hire payment of \$7,000,000. If Mr. Turner leaves the company voluntarily or due to termination for cause before completing 12 months of employment, 100% of the \$7,000,000 must be returned to Microsoft. If he leaves the company voluntarily or due to termination for cause after completing 12 months but before completing 24 months of employment, \$4,700,000 of the on-hire payment must be returned to Microsoft. If he leaves the company voluntarily or due to termination for cause after completing 24 months but before completing 36 months of employment, \$2,300,000 of the on-hire payment must be returned to Microsoft.

If Microsoft terminates Mr. Turner’s employment for any reason other than for cause, the payback provisions of the \$7,000,000 on-hire payment will become void and any portion of the Stock Award up to 160,000 shares that had not vested as of the date of such termination will become immediately vested.

A copy of Mr. Turner’s offer of employment from Microsoft is attached to this filing.

**Item 9.01 Financial Statements and Exhibits.**

(c) Exhibits

- 10.1 Offer Letter from Microsoft Corporation dated July 27, 2005, executed by B. Kevin Turner on July 28, 2005
- 99.1 Press Release of Microsoft Corporation dated August 4, 2005

**SIGNATURES**

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 hereunto duly authorized.

MICROSOFT CORPORATION

(Registrant)

Date: August 4, 2005

/s/ John A. Seethoff

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John A. Seethoff

Deputy General Counsel and Assistant Secretary

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**INDEX TO EXHIBITS**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Offer Letter from Microsoft Corporation dated July 27, 2005, executed by B. Kevin Turner on July 28, 2005
99.1	Press release dated August 4, 2005

July 27, 2005

VIA AIR COURIER  
Kevin Turner  
11220 Talamore Boulevard  
Bentonville, Arkansas 72712

Dear Kevin:

Microsoft Corporation is pleased to confirm our offer for the position of Chief Operating Officer reporting to Steve Ballmer, Chief Executive Officer. We anticipate that you will start your employment on September 8, 2005.

Microsoft has extended this offer to you based upon your general knowledge, background, experience and skills and abilities and not because of your knowledge of your current employer's or any previous employer's trade secrets or other confidential information. As a condition of employment at Microsoft, you will be required to sign the standard form Microsoft Corporation Employee Agreement (copy enclosed) in which you agree to, among other things, not disclose to Microsoft or use in your employment with Microsoft any confidential or proprietary information or trade secrets of any current or prior employer. In this regard, you should be extremely careful not to bring to Microsoft any documents or other materials in tangible form belonging to or acquired from your current or any prior employer.

Annual Compensation. Consistent with the company's philosophy of pay for performance, a significant portion of your annual compensation will be provided through performance-based components. The compensation package associated with this offer is as follows:

Your starting salary will be \$570,000 per year, equivalent to approximately \$47,500 per month. Currently, our performance review process provides for an annual merit increase opportunity, and any increase would be based on performance. Your first salary review will take place in September 2006. Any subsequent salary reviews will occur according to the performance review timetable in place for Microsoft employees at that time.

You also will be eligible for the Partnership bonus program. The bonus is awarded based on performance as evaluated during the performance review process. The bonus potential ranges from 0-100% of your eligible earnings during the review period. Your first eligibility for a bonus will be September 2006. Any subsequent bonus eligibility will occur according to the performance review timetable in place for Microsoft employees at that time.

You will participate in Microsoft's Shared Performance Stock Award (SPSA) program, our long-term incentive compensation plan for senior managers and officers, with a target SPSA award of 624,000 shares. The actual size of the award will be determined based on the company's performance against the program measures. One third of the SPSA award vests on or about August 31, 2006 (following the determination of results for the performance period), with an additional one-third vesting in each of the following two years, subject to continued employment through each vesting date. Upon vesting, you will be issued shares of Microsoft common stock, with shares withheld to pay required withholding taxes. Your SPSA award is subject to approval by the Compensation Committee of the Microsoft Board of Directors and will be governed by the terms and conditions of an award agreement that you will be required to sign as a condition of the award and by the terms of the Microsoft Corporation 2001 Stock Plan. Additional materials regarding the SPSA program and your award will be provided to you approximately 60 days after you commence employment at Microsoft.

You will be eligible for vacation in accordance with Microsoft policy, as well as participation in the Company's benefit plans (the company currently provides a flexible benefits plan, 401(k) savings plan and employee stock purchase plan). In addition you will be eligible to participate in all other executive compensation and/or employee benefit programs on the same terms and conditions that are available to other senior executives at your level.

**Relocation.** Microsoft will provide you with the relocation benefits described in the enclosed Relocation Benefits Summary. As part of Microsoft's executive relocation assistance program, you are eligible for a third-party home sale purchase at its appraised value should your primary residence not be otherwise sold as of a mutually agreed date. The benefits include reimbursement for certain relocation costs in accordance with the company's reimbursement guidelines. Payroll taxes will be withheld; however, Microsoft will provide a tax gross up to assist you in paying the taxes associated with the lump sum cash relocation allowance and certain other non-deductible relocation expenses that will be included in your Form W-2 as gross compensation.

**Replacement of Forfeited Compensation.** In addition, we recognize you are forfeiting a very significant amount of accumulated equity compensation when you leave your current employer. Accordingly, as a replacement for that compensation, we offer the following on-hire cash payment and Stock Award grant.

An on-hire payment of \$7,000,000 will be made to you within 14 days after our receipt of your signed letter, Employment Agreement and the other forms enclosed with this letter. This amount represents our genuine interest in your joining Microsoft. Payroll taxes will be withheld from the on-hire payment. In the unlikely event that you leave the company of your own volition or due to termination for cause by the company prior to completing 12 months of employment, 100% of the \$7,000,000 must be returned to Microsoft. If you leave the company of your own volition or due to termination for cause by the company after completing 12 months but prior to completing 24 months of employment, \$4,700,000 of the signing bonus must be returned to Microsoft. If you leave the company of your own volition or due to termination for cause by the company after completing 24 months but prior to completing 36 months of employment, \$2,300,000 of the signing bonus must be returned to Microsoft. You hereby authorize Microsoft to withhold this amount from any monies owed or stock issuable to you. For purposes of this letter, "for cause" means a good faith determination by the company that: (a) you have engaged in material dishonesty, fraud, or theft in connection with the business of the company or its affiliates; (b) you have engaged in conduct in violation of policies of the company designed to prevent violations of law, such as, without limitation, policies pertaining to compliance with the laws prohibiting unlawful discrimination, harassment, or insider trading; (c) you have been convicted of, or pled nolo contendere to, a felony; (d) you have materially breached the terms of your Employee Agreement; (e) your employment with the company violates any obligation to any third party not to engage in such employment; or (f) you fail to perform your material duties as an employee.

You will be granted a Stock Award of 320,000 shares in Microsoft Corporation under the Microsoft Corporation 2001 Stock Plan. Subject to continued employment through each vesting date, this award will vest as follows:

- 25% - September 1, 2008
- 25% - September 1, 2010
- 50% - Upon retirement from the company at age sixty or older.

Your Stock Award is subject to approval by the Compensation Committee of the Microsoft Board of Directors and will be subject to the terms of the Stock Award Agreement that you will be required to sign as a condition of the award and by the terms of the Microsoft Corporation 2001 Stock Plan. Additional information regarding this Stock Award, including the Stock Award Agreement, will be provided to you approximately 60 days after you commence employment with Microsoft. Under our current program, you will not be eligible to be considered for future Stock Awards.

**Termination of Employment by Microsoft.** If Microsoft terminates your employment for any reason other than "for cause" as defined above, the payback provisions of the \$7,000,000 on-hire payment will become void (i.e., no payback of any portion of the on-hire payment will be required). Also, in the case of termination of employment by Microsoft for any reason other than "for cause," any portion of the Stock Award up to 160,000 shares that had not vested as of the date of such termination, will become immediately vested.

**Death or Disability.** If, during your employment, you die or if you become totally and permanently disabled so as to qualify for Long-Term Disability coverage as determined by Microsoft's Long-Term Disability policy in effect at the

time of the disability event (as defined and determined under the policy), any portion of the Stock Award that had not vested will immediately vest. The forgoing vesting provision supersedes and replaces any provision of the Microsoft Corporation 2001 Stock Plan concerning vesting.

Please recognize that this offer letter is not a contract of employment for any specific or minimum term and that the employment Microsoft offers you is terminable at will. This means that our employment relationship is voluntary and based on mutual consent. You may resign your employment, and Microsoft likewise may terminate your employment, at any time, for any reason, with or without cause or notice. Any prior oral or written representations to the contrary are void, and our at-will relationship may not be modified except by a formal written employment contract signed by an officer of Microsoft. Attached is an addendum which specifies that any dispute regarding this letter will be resolved through arbitration.

This offer is contingent on your providing us with acceptable proof of your identity and authorization to work in the United States and your proper completion of a Form I-9 (Employment Eligibility Verification) as required under U.S. immigration regulations. Enclosed is a listing provided by the U.S. Immigration and Naturalization Service that describes what will be needed. This offer is also contingent upon the company receiving an acceptable check of your background, to include criminal convictions, confirmation of identification information, and credit history.

Please sign the copy of this letter and the enclosed Employee Agreement and promptly return them in the enclosed envelope. It is important that we receive your letter and the signed Employee Agreement prior to your start date. Please note that you are not authorized to alter the terms of the Employee Agreement in any manner. You may keep the original of this letter and a copy of the Employee Agreement for your records.

We believe you will make a substantial impact upon the future direction and success of our company. We look forward to your joining us. Should you have any questions, please give me a call.

Sincerely,

ACCEPTANCE:

/s/ LISA BRUMMEL

/s/ KEVIN TURNER

\_\_\_\_\_  
Lisa Brummel  
Vice President, Human Resources

\_\_\_\_\_  
Kevin Turner

July 28, 2005

**Microsoft Appoints Kevin Turner as Chief Operating Officer**  
*Company hires Wal-Mart executive to join executive leadership team.*

**REDMOND, Wash. — Aug. 4, 2005** — Microsoft Corp. today announced the appointment of Kevin Turner to the role of chief operating officer. Turner, 40, will be responsible for the strategic and operational leadership of Microsoft's sales, marketing and service professionals on a global basis as well as the company's fulfillment and IT operations. Turner most recently served as president and chief executive officer of SAM'S CLUB, a warehouse club operation with over \$37 billion in annual sales, and executive vice president of Wal-Mart Stores Inc., where he was responsible for all operations for SAM'S CLUB locations in the United States. Before that, Turner served as executive vice president and chief information officer for Wal-Mart, a role in which he oversaw all information systems operations for the company worldwide.

"I am extremely excited to have Kevin join Microsoft's executive leadership team, where we will benefit immensely from his experience, proven record of success and passion for technology," said Steve Ballmer, CEO of Microsoft. "More than ever, Microsoft's growth opportunities abound as a result of our strong product innovation pipeline. Kevin's leadership of global technology, sales, marketing and services will help ensure we harness this potential and fully realize the growth opportunities before us."

"I appreciate all of the opportunities that Wal-Mart has provided to me during my 19-year career there and I'm thrilled to bring that experience to Microsoft. As the global software leader, Microsoft offers limitless opportunities," said Turner. "I've worked with Microsoft for years as a customer and when you look at the incredible lineup of innovative products and technologies Microsoft is poised to deliver over the next couple of years, it is a very exciting place in which to contribute and work to change the world."

Turner's first day at Microsoft will be Sept. 8. Kevin Johnson, current group vice president of worldwide sales, marketing and services at Microsoft, will work closely with Turner to ensure a smooth transition, during which Johnson will continue in his role through Microsoft's fiscal quarter ending Sept. 30. Following the transition, Johnson will be named to a new senior executive role, the details of which will be announced within the next 30 days.



Johnson has led Microsoft's worldwide sales, marketing and services organization for more than three years. Under his leadership, Microsoft has experienced record revenue based on strong growth across many business groups including Windows<sup>®</sup>, Office and Windows Server System<sup>™</sup>. At the same time, Johnson has dramatically improved customer satisfaction with Microsoft products and services.

"Over the past 13 years Kevin Johnson has had an immense impact on the success we have realized at Microsoft. Under his leadership of our sales and marketing group, Microsoft has grown revenues by more than \$7 billion in the past three years alone," Ballmer said. "As he is one of Microsoft's strongest executives, I look forward to further applying Kevin's leadership in a very exciting capacity to be announced in the near future."

"I welcome Kevin Turner to Microsoft and look forward to ensuring a smooth transition as he takes on what is one of the best jobs at Microsoft — leading the finest group of sales, marketing and service professionals in the information technology industry," Johnson said. "At the same time, I'm looking forward with great excitement to my next opportunity at Microsoft."

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.

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