

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

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

Filed by the Registrant

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

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(Name of Registrant as Specified In Its Charter)

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Dear Shareholder,

First and foremost, thank you for your continued investment in Microsoft.

As we look ahead to our annual shareholders meeting on December 2, 2015, I would like to update you about developments at Microsoft over the past year, and ask for your support on the proposals that will be presented at our annual meeting. The accompanying presentation provides additional detail on these topics.

## 2015 Developments

Microsoft continued to make progress on its strategic transformation as our CEO Satya Nadella worked to refine the Company's strategic focus, prioritizing talent and investments in areas where we have differentiation and potential for growth. Throughout this transformation, the Board and management team have remained focused on and committed to executing on our strategic goals and creating value for our shareholders. In fiscal 2015 we increased:

- Total revenue 8%
- Commercial Cloud revenue 106%
- Quarterly dividend 11%
- Total cash returned to shareholders by nearly 50% to \$23.3 billion

The Board and leadership team were also responsible for three important developments over the past 12 months:

- **Evolution of Executive Compensation.** Last year in our proxy statement we said we were committed to developing performance metrics and long-term incentives as part of the annual incentive award structure for our executive officers. The Compensation Committee followed through by working with management to implement a new program for our current fiscal year that explicitly ties executive incentives to specific performance measures aimed at driving long-term performance and value creation. These performance measures align with the evolution of Microsoft's business and key long-term objectives and provide greater accountability and transparency. As part of this process, we engaged a wide range of shareholders who provided important input that was considered in constructing the changes for the new program.
- **Adopted Proxy Access.** The Board's decision to adopt proxy access grew out of an open and constructive dialogue with our shareholders and Microsoft's commitment to maintain strong governance practices. The "Proxy Access for Director Nominations" bylaw permits eligible shareholders to nominate candidates for election to the Microsoft Board.
- **Nominated Two New Independent Directors.** Microsoft has a regular practice of adding new directors who can provide new and diverse perspectives and complementary skills. We have nominated for election at the upcoming meeting Sandra Peterson, Group Worldwide Chairman at Johnson & Johnson, and Padmasree Warrior, formerly Chief Technology and Strategy Officer at Cisco Systems. We are excited about the new experience and insights they will bring to the Board.

## Annual Shareholders Meeting Items

At the December 2 annual meeting, our shareholders will vote on three management proposals.

- **Election of eleven directors.** Our director nominees represent an engaged, skilled group of individuals with the experience and expertise to help guide Microsoft through its next chapter of innovation. These nominees include two new independent directors as described above. The average director tenure of the slate of directors is six years. There is more information about all of our Board nominees in our [proxy statement](#) and on page 5 of the presentation.
- **Advisory vote on named executive officer compensation.** Our executive compensation program remains heavily weighted toward equity compensation to align our executives with the long-term performance of our company and with our shareholders' interests. With the changes taking effect in 2016, over half of Satya Nadella's pay opportunity will be tied to specific long-term performance metrics. More information about our executive compensation program can be found in our proxy statement and on pages 6 through 11 of the presentation.
- **Ratification of auditors.** The Audit Committee has selected Deloitte & Touche LLP as the independent auditor for fiscal 2016.

### ***The Microsoft Board of Directors encourages you to vote FOR each of these management proposals.***

This year we partnered with iiWisdom to deliver an interactive version of our [proxy statement](#) that is available on our Investor Relations website. Our interactive proxy statement improves our shareholders' ability to efficiently access and consume the proxy content they find most important using an interactive, easily navigable framework.

As we approach our annual shareholders meeting, the Board and I invite you to write us at [AskBoard@microsoft.com](mailto:AskBoard@microsoft.com) about corporate governance or the board of directors. We sincerely value continued feedback from our shareholders and appreciate the importance of thoughtfully considering a diversity of perspectives as we work to deliver long-term value. This letter and the accompanying presentation is part of our ongoing commitment to transparency and finding methods to communicate with you.

I appreciate the opportunity to serve Microsoft on your behalf.

Sincerely,

John W. Thompson  
Chairman of the Board  
Microsoft Corporation



# Shareholder Update

November 2015

# Agenda

## Continuing Our Strategic Transformation

- Mission and Strategy
- Business Momentum and Performance

## New Director Nominees

## Executive Compensation

- Fiscal Year 2015 Executive Pay
- Evolution of Executive Pay for Fiscal Year 2016 and Beyond

## Best Practices in Corporate Governance

- Proxy Access
- Governance and Compensation Best Practices

# Continuing Our Strategic Transformation

**Our mission** is to empower every person and every organization on the planet to achieve more. This mission is at the core of what our customers deeply care about; we have unique capability in harmonizing the needs of both individuals and organizations.

## **Business Strategy**

Build best-in-class platforms and productivity services for the mobile-first and cloud-first world.

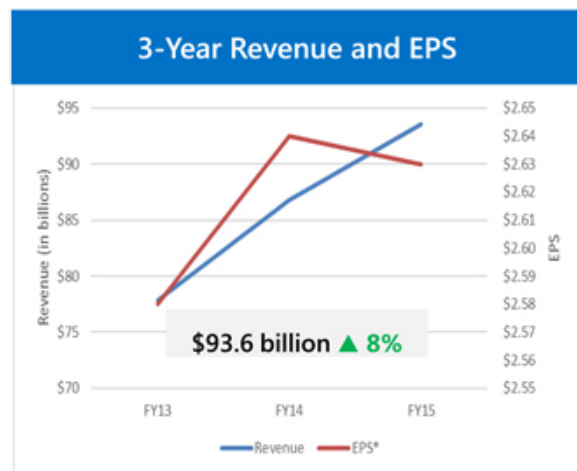
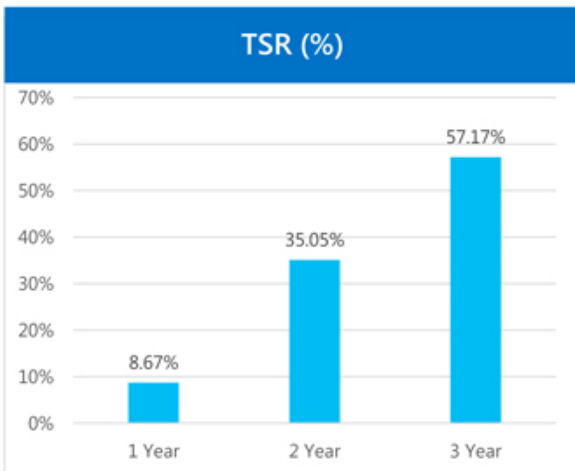
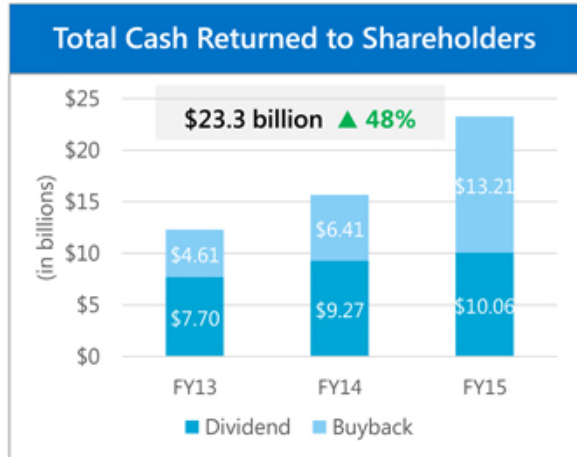
The transformation we are driving across our businesses is designed to enable Microsoft and our customers to thrive in this world.

We will realize our mission and strategy by investing in three interconnected ambitions:

- Reinvent productivity and business processes
- Build the intelligent cloud platform
- Create more personal computing

# Business Momentum and Solid Financial Performance

- **Commercial Cloud revenue** grew 106%, reaching an annualized revenue run rate of over \$8 billion.
- Completed development and testing for **Windows 10**; released on July 29, 2015, now with over 110 million active Windows 10 devices.
- Increased **Azure revenue and compute usage** over 100% in the fourth quarter year-over-year.
- **Bing** search advertising revenue grew 22%.
- **Office 365 consumer subscribers** grew to over 15 million, with users growing at nearly 1 million per month at fiscal year end.



\*FY14 and FY15 EPS is non-GAAP; adjusted for impairment, integration and restructuring expenses

# Accomplished Director Nominees

## Evolving Board Composition



### **Sandra Peterson**

(Nominated for election in December 2015)

**Group Worldwide Chairman,  
Johnson & Johnson**

Responsible for Johnson & Johnson's Consumer Group of Companies, and Johnson & Johnson Supply Chain, Information Technology, Wellness and Prevention, and Global Strategic Design. She brings extensive operating experience with global companies, product and marketing experience, and expertise with strategy development. Ms. Peterson has significant information technology experience, financial knowledge and understanding of how to run highly-regulated businesses.



### **Padmasree Warrior**

(Nominated for election in December 2015)

**Former Chief Technology and  
Strategy Officer, Cisco Systems, Inc.**

She was responsible for Cisco's worldwide business and technology strategy, mergers and acquisitions, equity investments, and innovation; charged with aligning technology development and corporate strategy. She has wide-ranging experience as a technical leader addressing silicon, hardware and software development challenges. Ms. Warrior brings significant experience in driving technology and operational innovation across a global company, and in forging growth through strategic partnerships and new business models.



# Compensation Philosophy

Five core tenets inform the design of our executive compensation program

## **Competitive Pay Opportunity**

We pay competitively to attract, motivate, and retain the executives who drive our success and industry leadership

## **Equity Incentives**

At least 70% of annual target pay opportunity is in equity to incentivize a long-term focus and strong alignment with shareholders

## **Sustainable Long-term Performance**

Large majority of total pay is subject to multi-year vesting or performance requirements

## **Explicit Pay and Performance Link**

We explicitly tie pay to performance by delivering a large majority of pay through performance-based incentives

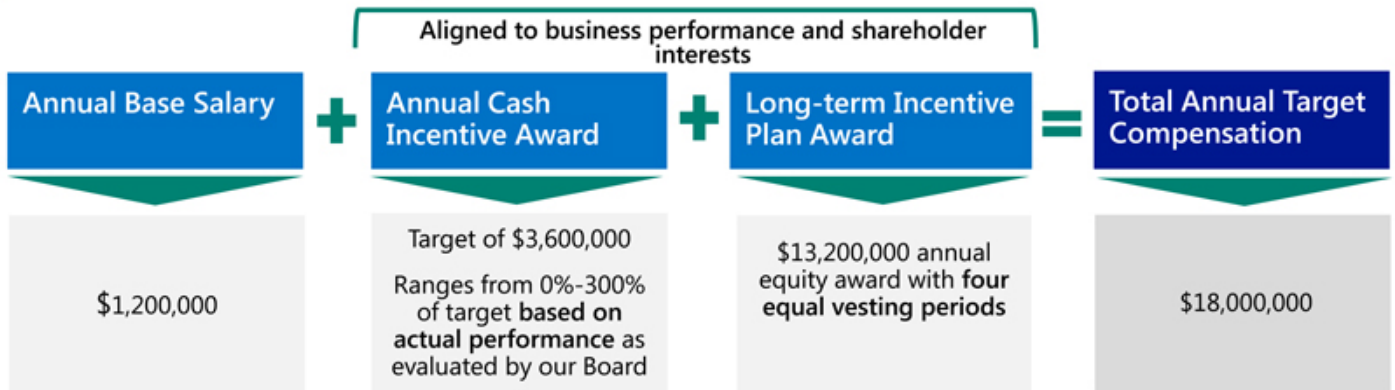
## **Compensation Governance**

We discourage unnecessary and excessive risk-taking through our vesting and stock holding requirements and clawback provisions

Our executive compensation philosophy and structure create strong alignment with our long-term strategic goals and the interests of our shareholders

# Compensating a Global Technology Leader

## FY2015 Opportunity



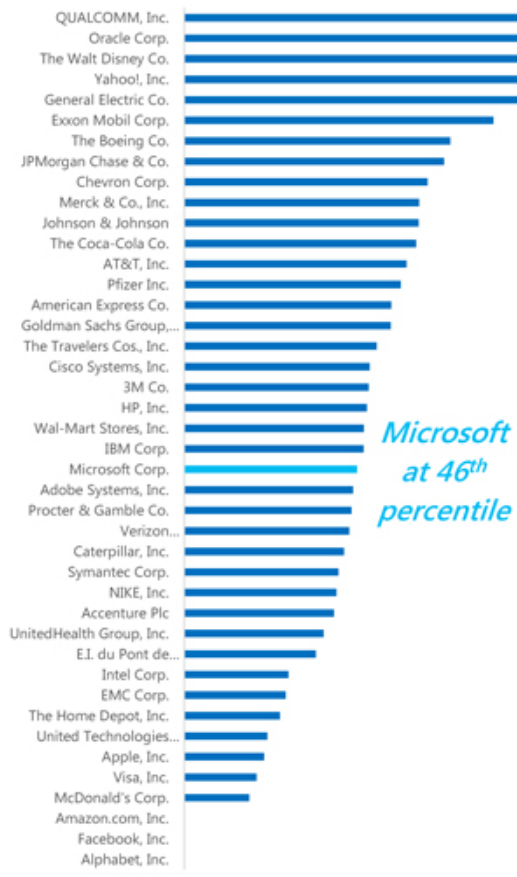
## FY2015 Results: In line with Microsoft performance and peer group CEO compensation

- 46<sup>th</sup> percentile of peer group
- 104% of target total compensation
- 120% of target bonus
- 13.33% of maximum bonus

The annual compensation for Mr. Nadella reflects the demands and responsibilities of leading a global organization with the scope and stature of Microsoft, and the fierce competition for talented executives in the technology sector

# FY15 Peer Company CEO Pay

## FY15 CEO Total Compensation: Rank v. Peers\*



\*Based on last available summary compensation table data from peer proxy statements, excluding all other compensation

# Executive Compensation Program Evolution

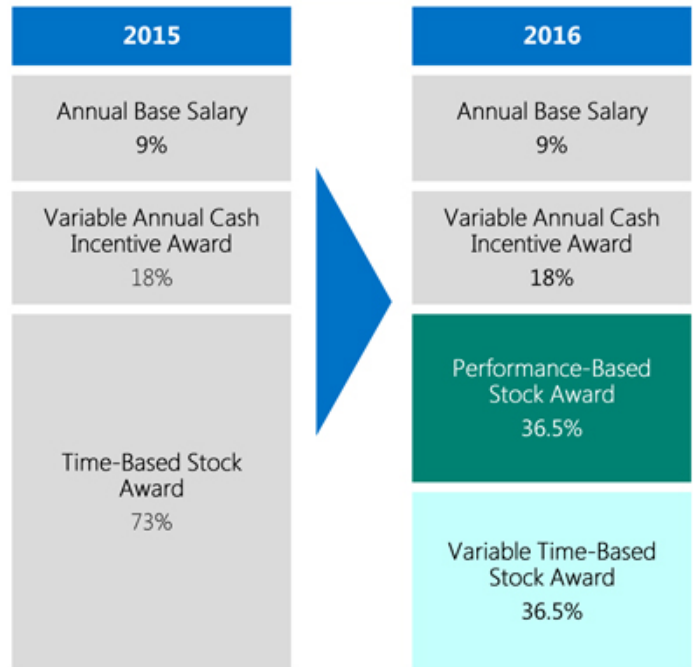
## Compensation Program Evolution was Informed by Shareholder Input

The Compensation Committee made changes to further link pay with objective performance measures that align with Microsoft's strategic goals and long-term objectives.

### Key 2016 Program Changes Include

- ✓ **Introduced performance-based stock awards** linked to key financial measures (50% of target annual equity incentive)
- ✓ **Added Relative TSR** multiplier to reward significant outperformance
- ✓ **90%** of annual total target compensation is now variable based on performance
- ✓ **Reduced maximum cash bonus** to increase long-term focus (300% to 200%)
- ✓ **56%** of CEO total equity is performance based
- ✓ **No change** in CEO total target pay for 2016

2016 compensation program reflects a significant increase in the percentage of compensation tied directly to objective performance measures



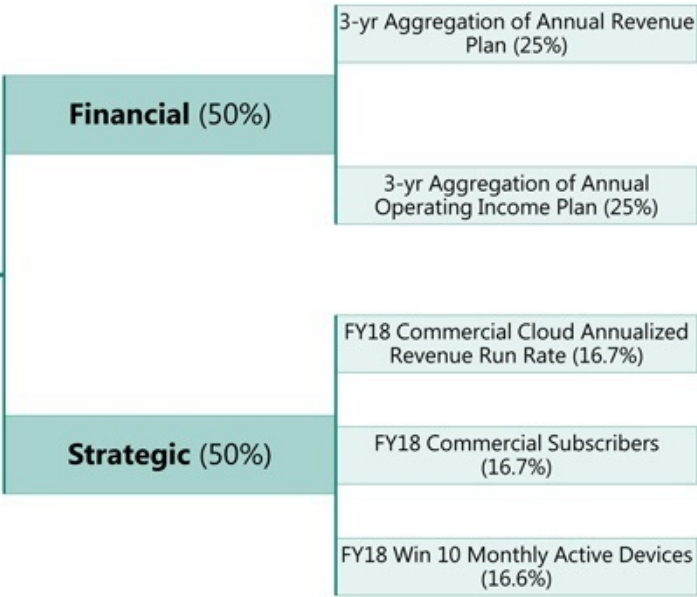
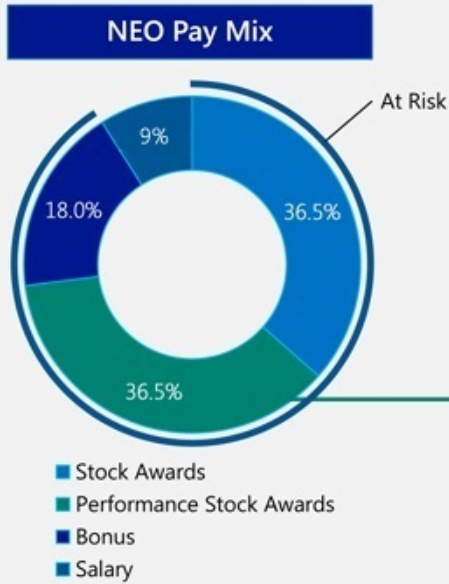
Note: graphic excludes Other Compensation

# Long-Term Incentive Pay Tied to Rigorous Metrics

Performance-based stock awards further enhance the link between executive pay and Microsoft's long-term performance

## Overall 2016 Compensation Structure

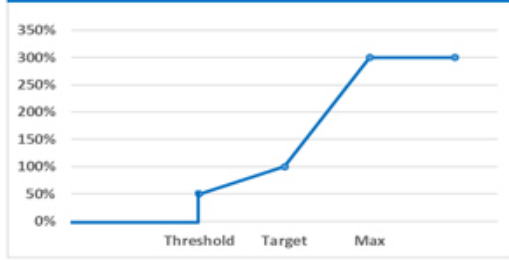
Microsoft's pay mix targets a high proportion of equity and performance-based compensation



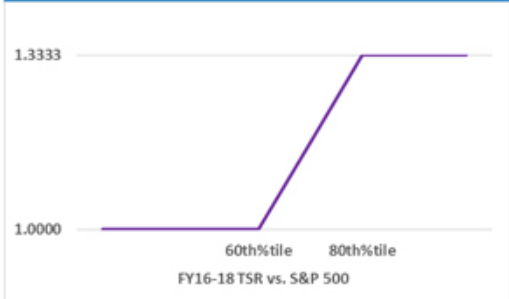
**Relative TSR** multiplier is triggered only if Microsoft's TSR is *positive* and *above the 60th percentile* of the S&P 500

# Performance Stock Award Payout Opportunity

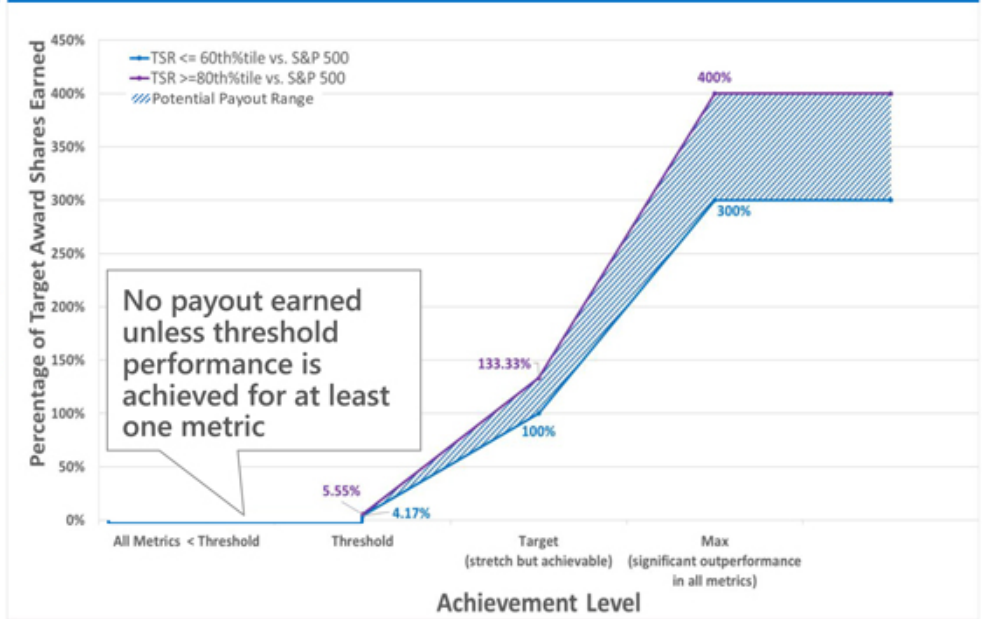
## Payout Curve for Each Metric



## TSR Multiplier



## Performance Stock Award Payout Opportunity



**Payout opportunity** ranges from 0% to 400% of the target number of shares, **including the TSR multiplier**, which **establishes accountability** for underperformance and **incentivizes** out-performance.

## Proxy Access

Microsoft's Board is committed to strong corporate governance practices, establishment of meaningful shareholder rights and robust engagement practices

In August 2015, we adopted a "Proxy Access for Director Nominations" bylaw, which permits eligible shareholders to nominate candidates for election to the Microsoft Board. Proxy access candidates will be included in the Company's proxy statement and ballot.

The proxy access bylaw provides that

- holders of at least **3 percent** of Microsoft's outstanding shares, which can comprise up to **20 shareholders**,
- holding the shares continuously for at least **3 years**,
- can nominate **two individuals or 20 percent of the Board, whichever is greater**, for election at an annual shareholders meeting.

# Leader in Governance and Compensation Best Practices

## Progressive Governance Practices and Shareholder Rights

- ✓ Directors are elected annually
- ✓ Regularly refresh Board; average director tenure is 6 years
- ✓ 82%+ of our director nominees are independent and all are highly qualified
- ✓ Separate chairman and CEO roles with an independent chairman
- ✓ Proxy access bylaw
- ✓ Majority voting for director elections (one of the first adopters in U.S.)
- ✓ Annually evaluate the performance of the Board, its committees, and each director
- ✓ Simple majority vote provisions to amend bylaws/charter
- ✓ Shareholders holding 25% of our shares have the right to call a special meeting
- ✓ Robust shareholder outreach practices
- ✓ History of responsiveness to our shareholders' feedback

## Effective Compensation Governance

- ✓ Aggressive executive compensation recovery policy to ensure accountability (clawback policy)
- ✓ Executive stock ownership requirements (ranging from 3x-10x base salary)
- ✓ Anti-hedging and pledging policy
- ✓ Independent compensation consultant advises our Compensation Committee
- ✓ Responsibly manage the use of equity compensation
- ✗ No stock options
- ✗ No special perquisites or benefits (no tax gross-ups, club memberships, car allowances, or special medical benefits)
- ✗ No employment contracts
- ✗ No change in control protection
- ✗ No special retirement program
- ✗ No guaranteed bonuses