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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended June 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

Commission File Number 0-14278

MICROSOFT CORPORATION

WASHINGTON	**91-1144442**
(STATE OF INCORPORATION)	(I.R.S. ID)

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399

(425) 882-8080

www.microsoft.com/investor

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, $0.00000625 par value per share **NASDAQ**

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of December 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $195,333,665,376 based on the closing sale price as reported on the NASDAQ National Market System. As of July 18, 2012, there were 8,383,396,575 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on November 28, 2012 are incorporated by reference into Part III.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 26, 2012, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
July 26, 2012

Stock-based compensation expense and related income tax benefits were as follows:

(In millions) Year Ended June 30,	2012	2011	2010
Stock-based compensation expense	**$ 2,244**	$ 2,166	$ 1,891
Income tax benefits related to stock-based compensation	**$ 785**	$ 758	$ 662

Stock Plans (Excluding Stock Options)

Stock awards

Stock awards ("SAs") are grants that entitle the holder to shares of Microsoft common stock as the award vests. Our SAs generally vest over a five-year period.

Shared performance stock awards

Shared performance stock awards ("SPSAs") are a form of SA in which the number of shares ultimately received depends on our business performance against specified performance targets.

We granted SPSAs for fiscal years 2012, 2011, and 2010 with performance periods of July 1, 2011 through June 30, 2012, July 1, 2010 through June 30, 2011, and July 1, 2009 through June 30, 2010, respectively. In August following the end of each performance period, the number of shares of stock subject to the award is determined by multiplying the target award by a percentage ranging from 0% to 150%. The percentage is based on performance metrics for the performance period, as determined by the Compensation Committee of the Board of Directors in its sole discretion. An additional number of shares, approximately 12% of the total target SPSAs, are available as additional awards to participants based on individual performance. One-quarter of the shares of stock subject to each award vest following the end of the performance period, and an additional one-quarter of the shares vest on each of the following three anniversaries of the grant date.

Executive officer incentive plan

Under the Executive Officer Incentive Plan ("EOIP"), the Compensation Committee awards performance-based compensation to executive officers for specified performance periods. During the periods reported, executive officers were eligible to receive annual awards comprising cash and SAs from an aggregate incentive pool equal to a percentage of consolidated operating income. For fiscal years 2012, 2011, and 2010, the pool was 0.3%, 0.25%, and 0.45% of operating income, respectively.

In September following the end of the fiscal year, each executive officer may receive a combined cash and SA award with a total value equal to a fixed percentage of the aggregate pool. The fixed percentage ranges between 0% and 150% of a target based on an assessment of the executive officer's performance during the prior fiscal year. Following approval of the awards, 20% of the award is payable to the executive officers in cash, and the remaining 80% is converted into an SA for shares of Microsoft common stock. The number of shares subject to the SA portion of the award is determined by dividing the value of 80% of the total award by the closing price of Microsoft common stock on the last business day in August of each year. The SA portion of the award vests one-quarter immediately after the award is approved following fiscal year-end and one-quarter on August 31 of each of the following three years.

Activity for all stock plans

The fair value of each award was estimated on the date of grant using the following assumptions:

Year Ended June 30,	2012	2011	2010
Dividends per share (quarterly amounts)	**$ 0.16 - $ 0.20**	$ 0.13 - $ 0.16	$ 0.13
Interest rates range	**0.7% - 1.7%**	1.1% - 2.4%	2.1% - 2.9%

During fiscal year 2012, the following activity occurred under our stock plans:

	Shares	Weighted Average Grant-Date Fair Value
	(In millions)	
Stock Awards		
Nonvested balance, beginning of year	**255**	**$ 23.59**
Granted	**90**	**$ 24.96**
Vested	**(73)**	**$ 24.20**
Forfeited	**(24)**	**$ 23.74**
Nonvested balance, end of year	**248**	**$ 23.90**
Shared Performance Stock Awards		
Nonvested balance, beginning of year	**32**	**$ 23.76**
Granted	**20**	**$ 22.88**
Vested	**(15)**	**$ 24.69**
Forfeited	**(4)**	**$ 23.82**
Nonvested balance, end of year	**33**	**$ 23.93**

As of June 30, 2012, there was $4.4 billion and $495 million of total unrecognized compensation costs related to SAs and SPSAs, respectively. These costs are expected to be recognized over a weighted average period of 2.9 years and 2.5 years, respectively.

During fiscal year 2011 and 2010, the following activity occurred under our stock plans:

(In millions, except fair values)	2011	2010
Stock Awards		
Awards granted	114	100
Weighted average grant-date fair value	$ 22.17	$ 23.43
Shared Performance Stock Awards		
Awards granted	18	12
Weighted average grant-date fair value	$ 22.56	$ 24.57

Following are the fair values of stock plan awards vested during the periods reported:

(In millions)	2012	2011	2010
Total vest-date fair value of stock awards vested	**$ 1,971**	$ 1,521	$ 1,358
Total vest-date fair value of shared performance stock awards vested	**$ 388**	$ 289	$ 227

Stock Options

Currently, we grant stock options primarily in conjunction with business acquisitions. We granted six million, zero, and one million stock options in conjunction with business acquisitions during fiscal years 2012, 2011, and 2010, respectively.

Employee stock options activity during 2012 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In millions)		(Years)	(In millions)
Balance, July 1, 2011	**93**	**$ 23.21**		
Granted	**6**	**$ 9.41**		
Exercised	**(64)**	**$ 22.20**		
Canceled	**(13)**	**$ 29.44**		
Balance, June 30, 2012	**22**	**$ 18.69**	**2.15**	**$ 264**
Exercisable, June 30, 2012	**18**	**$ 20.77**	**0.83**	**$ 178**

As of June 30, 2012 approximately six million options that were granted in conjunction with business acquisitions were outstanding. These options have an exercise price range of $0.01 to $29.24 and a weighted average exercise price of $9.33.

During the periods reported, the following stock option exercise activity occurred:

(In millions)	2012	2011	2010
Total intrinsic value of stock options exercised	**$ 456**	$ 222	$ 365
Cash received from stock option exercises	**$ 1,410**	$ 1,954	$ 1,839
Tax benefit realized from stock option exercises	**$ 160**	$ 77	$ 126

Employee Stock Purchase Plan

We have an employee stock purchase plan (the “Plan”) for all eligible employees. Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value on the last trading day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. Under the terms of the Plan that were approved in 2002, the Plan will terminate on December 31, 2012. Microsoft intends to request shareholder approval to renew the Plan and reserve additional shares for issuance under the Plan before December 31, 2012. Employees purchased the following shares during the periods presented:

(Shares in millions) Year Ended June 30,	2012	2011	2010
Shares purchased	**20**	20	20
Average price per share	**$ 25.03**	$ 22.98	$ 23.73

At June 30, 2012, 23 million shares of our common stock were reserved for future issuance through the Plan.

Savings Plan

We have a savings plan in the U.S. that qualifies under Section 401(k) of the Internal Revenue Code, and a number of savings plans in international locations. Participating U.S. employees may contribute up to 50% of their salary, but not more than statutory limits. We contribute fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant’s earnings. Matching contributions for all plans were $373 million, $282 million, and $275 million in fiscal years 2012, 2011, and 2010, respectively, and were expensed as contributed. Matching contributions are invested proportionate to each participant’s voluntary contributions in the investment options provided under the plan. Investment options in the U.S. plan include Microsoft common stock, but neither participant nor our matching contributions are required to be invested in Microsoft common stock.

Part 4 Named Executive Officer compensation

Compensation discussion and analysis

This compensation discussion and analysis provides information about our fiscal year 2012 compensation program for our fiscal year 2012 Named Executive Officers (collectively "Named Executive Officers" or "NEOs"):

- Steven A. Ballmer, our Chief Executive Officer (and our principal executive officer)
- Peter S. Klein, our Chief Financial Officer (and our principal financial officer)
- Kurt D. DelBene, our President, Microsoft Office Division
- Steven J. Sinofsky, our President Windows and Windows Live Division
- B. Kevin Turner, our Chief Operating Officer

The contents of this compensation discussion and analysis are organized into three sections:

Section 1 – Performance and pay

Section 2 – Compensation setting process and decisions for fiscal year 2012

Section 3 – Other compensation policies and information

Section 1 – Performance and pay

Fiscal year 2012 corporate performance

Company-wide performance

In fiscal year 2012, we continued to drive solid business results even as we invested to reach the threshold of the largest launch wave in our history. We reported:

- $74.26 billion in revenue as adjusted,* an increase of 6% (GAAP revenue of $73.72 billion)
- $28.50 billion in operating income as adjusted,* an increase of 5% (GAAP operating income of $21.76 billion)
- $2.78 diluted earnings per share as adjusted,* an increase of 5% (GAAP diluted earnings per share of $2.00)
- $31.6 billion in cash flow from operations, an increase of 17%, reflecting continued discipline in controlling costs
- $10.7 billion returned to shareholders through dividends and stock buybacks

* Revenue adjusted for revenue deferrals from sales of Windows 7 with an option to upgrade to Windows 8 Pro at a discounted price (the "Windows Upgrade Offer"). Operating income and EPS adjusted for Windows Upgrade Offer deferral and goodwill impairment. EPS adjusted also for tax settlement benefit in the third quarter of fiscal year 2011. Please see Annex A to this proxy statement for a reconciliation of non-GAAP and GAAP financial measures presented.

Business segment highlights

Financial and operating results in our businesses reflected continuing product momentum.

- Server and Tools revenue grew 12% over fiscal year 2011 as we delivered new versions of significant products, such as SQL Server 2012 and System Center 2012.
- Microsoft Business Division revenue grew 7% over fiscal year 2011. Two years after launch, Office 2010 adoption by businesses continued to grow. Office is installed on more than 1 billion PCs worldwide.
- Windows & Windows Live Division revenue declined 3% in fiscal year 2012, or 1% adjusting for the impact of the Windows Upgrade Offer. Windows 7 adoption continued with more than 50% of worldwide enterprise desktops running Windows 7.
- Online Services Division revenue grew 10% in fiscal year 2012. Operating loss increased $5.5 billion primarily due to a $6.2 billion goodwill impairment charge. Excluding the impairment charge, OSD operating performance improved by 27%. Bing introduced social search, and achieved organic U.S. search market share of 15.6% in June 2012, up 120 basis points from June 2011. Including Yahoo! properties, U.S. market share was approximately 26% in June 2012, down 100 basis points from 2011.
- In the Entertainment and Devices Division we integrated Skype, which contributed to an 8% increase in revenue over fiscal year 2011. Although the console market

declined in fiscal year 2012, Xbox 360 ended fiscal year 2012 as the top-selling console in the U.S. for 18 consecutive months, with 47% market share. We released an update to Xbox Live and membership increased more than 15% year over year.

Preparing to deliver the new era of devices and services

We delivered these results while preparing a pipeline of new and updated products that will launch in the year ahead. This is significant in our strategic evolution as we transform user experiences through the adoption of cloud computing combined with the richness of smart, connected devices. Our work in 2012 led to the offerings we are launching in fiscal year 2013 that will enable experiences that seamlessly connect PCs and mobile and other devices through the cloud.

- We made available the Release Preview of the Windows 8 operating system on May 31, 2012 and completed its development with release to manufacturing on August 1, 2012. Windows 8 will launch on October 26, 2012. Through Windows 8's intuitive, touch-based interface and easy access to users' favorite services, applications, and content, our goal is to provide users with a consistent and compelling experience on a variety of PCs and mobile devices.
- Complementing the variety of OEM hardware that will be available to run Windows 8, in June 2012 we introduced the Surface, a set of Microsoft-designed and manufactured hardware devices that combine the power of our Windows 8 software and the feel of premium hardware.
- On July 16, 2012, we unveiled the customer preview of the new Microsoft Office, our suite of productivity applications optimized to work with Windows 8 delivering advances in cloud, mobility, and social features.
- On June 20, 2012, we unveiled the next version of our Windows Phone operating system, Windows Phone 8, which will be based on the same core technologies that power Windows 8. This will enable a wave of new mobile scenarios for consumers, developers, and IT professionals.
- On August 1, 2012, we released to manufacturing Windows Server 2012, a cloud-optimized server operating system designed to help businesses create private and hybrid clouds, and Visual Studio 2012, an update to our developer tools. We launched both of these products in September.
- On June 4, 2012, we introduced Xbox SmartGlass for Xbox 360, which will connect phones, PCs, and tablets with our console to enable more interactive and engaging entertainment.

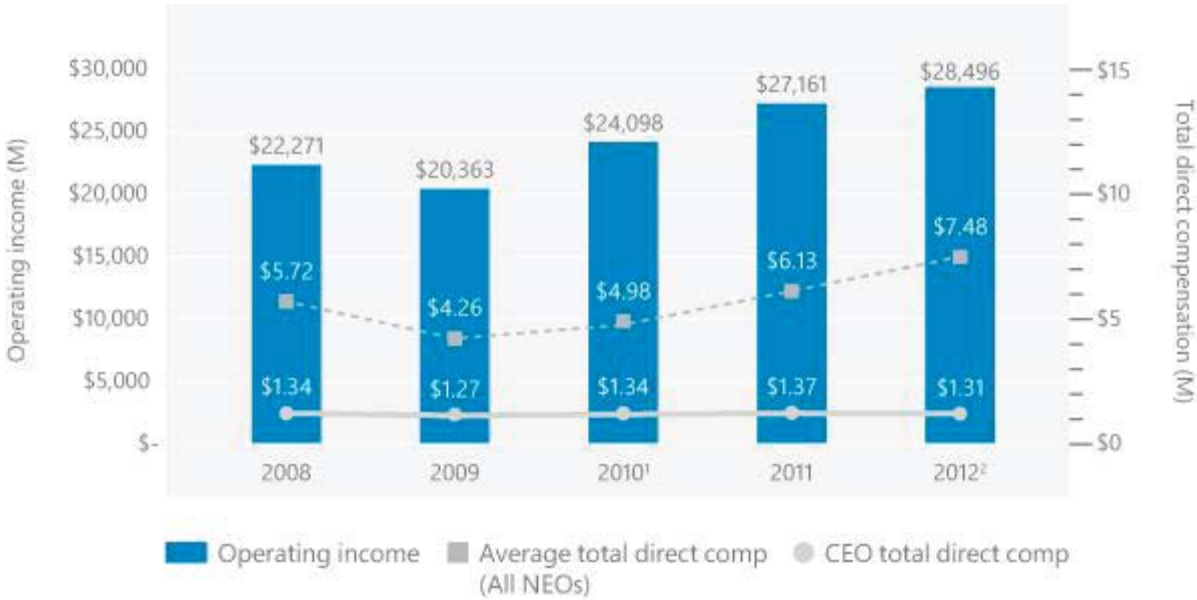
Named Executive Officer pay and performance

In our 2011 compensation discussion and analysis, we noted that for fiscal year 2012 we changed our rewards program by increasing base pay and total pay opportunity broadly across the Company in response to the increasingly competitive technology labor market. The Compensation Committee also evaluated the compensation opportunity for our executive officers for fiscal year 2012 and agreed it was necessary to increase their incentive compensation targets to remain competitive with other outside employment opportunities. The increase did not apply to our chief executive officer. More information about the market for talent is provided below in Section 2 – "Compensation setting process and decisions for fiscal year 2012."

As explained in Section 2, the Compensation Committee and independent directors review an array of quantitative and qualitative measures before applying their judgment to determine NEO pay for the year. As a result, incentive plan pay is not tied directly to any specific set of metrics. Nevertheless, the relationship between total direct compensation (base salary plus cash and stock-based incentive compensation) and key financial results demonstrates the alignment we have established between pay and business performance.

From 2008 to 2012, changes in total direct compensation for our NEOs generally tracked changes in our operating income. Over time, we expect operating income and total direct compensation to trend together; in any given year there may be some variability. The table below illustrates this relationship. Similarly, the decisions of the Compensation Committee and Board result in incentive plan awards for Named Executive Officers that vary within a given year and from year-to-year. For example, awards ranged from, 96% to 140%, 90% to 132%, and 90% to 125% of target in fiscal years 2010, 2011, and 2012, respectively.

Microsoft operating income vs. total direct compensation



(1) The fiscal year 2010 proxy statement reported six NEOs (including our chief executive officer) because of executive departures during the year. For year-over-year comparability, this chart includes the CEO and four most highly compensated NEOs for fiscal year 2010.

(2) Fiscal year 2012 operating income adjusted for Windows Upgrade Offer revenue deferral and goodwill impairment charge. See Annex A for a reconciliation of non-GAAP and GAAP measures presented.

Section 2 – Compensation setting process and decisions for fiscal year 2012

Executive compensation program

In fiscal year 2012, we continued to provide executive officer compensation via a straightforward structure consisting of base salary and incentive awards under our Executive Officer Incentive Plan (“Incentive Plan”). Our executive compensation program incentivizes performance and does not reward inappropriate risk taking as further described below in Section 3 – “Other compensation policies and information” and in Part 6 – “Proposals to be voted on at the meeting – Advisory vote on executive compensation.”

The Incentive Plan provides a unified framework for assessing executive officer performance and determining the appropriate cash and stock-based compensation for that performance. Awards under the Incentive Plan are not derived directly from a formula. Instead, the awards are determined after a review of each executive officer’s performance across a wide range of financial, operational, and strategic assessments. As in previous years, Mr. Ballmer’s incentive compensation opportunity for fiscal year 2012 was limited to a cash payment of up to 200% of his fiscal year 2012 base salary, consistent with his longstanding request that we not award him equity compensation. The fiscal year 2012 Incentive Plan awards for other executive officers were paid

- 20% in cash in September 2012, and
- 80% in the form of a stock award that vests in four equal installments, with the first installment vesting following approval of the award and subsequent installments vesting on August 31 in each of the following three years.

As in prior years, the fiscal year 2012 compensation decisions for our executive officers were made in three steps.

Roles of Board, Compensation Committee, and CEO	Steps	When
• CEO compensation decisions are made by the independent members of the Board, based on recommendation of the Compensation Committee • Other NEO compensation decisions are made by the Compensation Committee, based on recommendations of the CEO • Compensation Committee is advised by independent compensation consultant	Design Program – Program for year is approved (including mix of annual and multi-year pay, fixed and incentive compensation, and any base salary adjustment)	Beginning of fiscal year
	Establish Range of Compensation Opportunities – Incentive compensation opportunities are set (minimum, target, and maximum incentive awards)	Beginning of fiscal year
	Review Performance – Performance is reviewed, which leads to decisions about actual Incentive Plan award amounts	Following end of fiscal year

Program design

The compensation program for our executive officers reflects our compensation philosophy and ongoing assessment of the competitive market for executive talent.

Compensation philosophy

We design the compensation program for our executive officers to attract, motivate, and retain the key executives who drive our success and industry leadership. We achieve these objectives through compensation that:

- provides a competitive total pay opportunity,
- consists primarily of stock-based compensation, which encourages our executive officers to act as owners with an equity stake in Microsoft,
- links a significant portion of total compensation to performance we believe will create long-term business value,
- differentiates rewards based on the executive officer's contributions to our business performance,
- enhances retention by subjecting a significant percentage of total compensation to multi-year vesting, and
- does not encourage unnecessary and excessive risk taking.

At the 2011 Annual Meeting, almost 99% of the votes cast supported our say-on-pay resolution. Our Compensation Committee considered the results of the advisory vote and input from some of our largest investors, who expressed no significant concerns about our executive compensation policies and practices. The Compensation Committee did not change our 2012 executive compensation programs as a result of the 2011 say-on-pay vote or our shareholder engagement.

Competitive market assessment

We compete with global information technology and large market capitalization U.S. companies for senior executive talent. We continually monitor the competitive marketplace and the compensation levels and pay practices of other companies so we can be responsive to marketplace changes.

To ensure we have the information necessary to set appropriate compensation levels, we conduct a market analysis of executive compensation programs each year that includes publicly available executive compensation data for two groups of peer companies and third-party compensation surveys. The two groups of peer companies are:

- information technology companies that produce software or hardware or provide online or cloud-based services, employ work forces with skill sets and professional backgrounds similar to those of our work force, have a significant global presence, and are generally comparable in terms of annual revenue and market capitalization (the "Technology Peer Group"), and
- large, diversified companies with significant international operations (the "Dow 30 Peer Group").

We supplement this peer group analysis with additional market information specific to each executive officer's role. Given the size and scope of the businesses our executive officers lead, many of which are comparable to separate business enterprises, other companies actively recruit our top executives to fill their senior leadership positions. This market information includes data relating to external job opportunities potentially available to our executive officers.

While our market analysis informs our range of compensation opportunity and decisions of the Board and the Committee, we do not tie our executive officers' compensation levels to specific market percentiles. Although we review market data from all sources described above, we place primary emphasis on the pay levels and practices of our technology peers as they most closely represent the labor market in which we compete for key talent.

In mid-2011, when we were preparing our fiscal year 2012 compensation design and establishing target compensation opportunities, the two peer groups consisted of these companies.

Technology Peer Group		Dow 30 Peer Group		
Accenture	Intel*	3M	DuPont	Pfizer
Adobe Systems	Oracle	Alcoa	ExxonMobil	Procter & Gamble
Amazon	Research In Motion	American Express	General Electric	Travelers Companies
Apple	SAP	AT&T	Home Depot	United Technologies
Cisco Systems*	Symantec	Bank of America	JP Morgan Chase	Verizon
Dell Computer	Yahoo	Boeing	Johnson & Johnson	Wal-Mart
Google		Caterpillar	Kraft Foods	Walt Disney
Hewlett-Packard*		Chevron	McDonald's	
IBM*		Coca-Cola	Merck	

* These companies are included in the Technology Peer Group and omitted from the Dow 30 to avoid duplication.

Complexity of executive roles

Our executive officers have demanding roles leading complex businesses. The chart below represents our current position relative to our combined peer companies on three dimensions (based on publicly available information as of July 2012). In many cases, our roles involve greater scope and complexity than similar positions at our Dow and Technology peers.

Revenue, market capitalization and headcount – Microsoft's position relative to peers

Technology labor market

Our businesses operate in very dynamic environments. Beginning in 2010, we have seen an increasingly competitive technology labor market, which has led to significant increases in compensation at all employee levels at the companies with whom we compete for talent. Similar conditions exist in the market for executive level talent. We expect these trends to continue and we expect to continue to make adjustments in our approach to executive compensation as needed to respond to market conditions. For fiscal year 2012, the Committee responded to these market dynamics by increasing the Incentive Plan target awards for the Named Executive Officers other than Mr. Ballmer, as described below – "Establishing compensation opportunities."

Compensation consultant role

The Committee retains and is advised by Semler Brossy Consulting Group, LLC, a national executive compensation consulting firm that is independent of management, to assist the Committee in its review and oversight of our executive compensation program. See Part 3 – "Board of Directors – Compensation Committee – Compensation consultant" for more information on Semler Brossy's role as an advisor to the Committee.

Compensation program components

Our executive compensation program for fiscal year 2012 continued to have two principal components: base salary and incentive awards under the Incentive Plan.

As in prior fiscal years, the Incentive Plan provided our executive officers with the opportunity to earn incentive compensation payable in cash and stock, except for Mr. Ballmer whose award is payable entirely in cash. Awards under the Incentive Plan are not formula-based. Instead, the Committee exercises its independent business judgment to determine the amount of these awards, if any, after evaluating the performance of each executive officer.

The Incentive Plan allows the Committee and Board to:

- consider performance against a wide range of strategic, operational, and financial measures, reflecting Microsoft's broad and complex business,
- allow for flexibility in compensation to reflect business changes over the course of the year,
- incentivize efforts to create shareholder value that may not produce tangible results within a fixed or predictable time period, which is important given the long-term characteristics of Microsoft's business, and
- differentiate rewards among our executive officers based on their performance.

Our mix of target pay places a higher proportion of pay in equity compensation than our peer companies. The following chart provides information about the fiscal year 2012 target pay mix for our Named Executive Officers (excluding Mr. Ballmer and using target pay mix data available in mid-2011 when we conducted our fiscal year 2012 compensation planning) compared to the non-CEO Named Executive Officers of our Dow 30 and Technology peers companies.

Pay mix versus peers

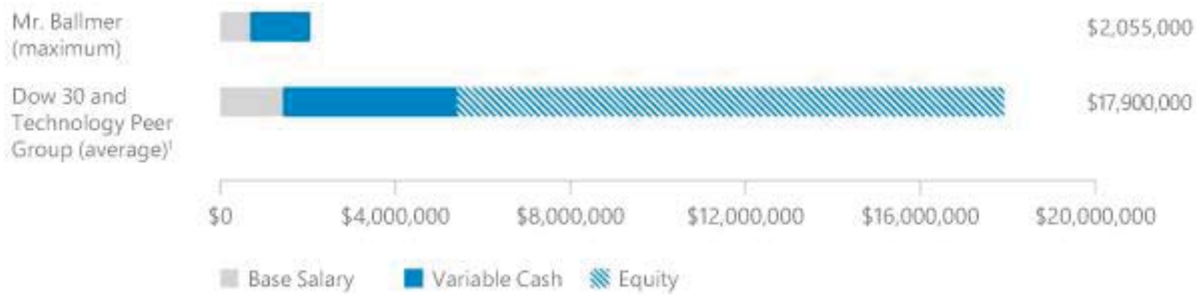
Peer group companies. Variable cash consists of discretionary bonuses, target annual non-equity incentive plan awards, and target multi-year non-equity incentive plan awards. Equity consists of stock options, stock awards, annual incentive plan equity awards, and multi-year incentive plan equity awards.

Microsoft. Variable cash consists of 20% of the target Incentive Plan award payable in cash. Equity consists of 80% of the target Incentive Plan award payable as a stock award.

Consistent with longstanding practice and his request, Mr. Ballmer does not participate in the equity component of the Incentive Plan. His award under the Incentive Plan is payable entirely in cash, and is correspondingly smaller than those made to the other Named Executive Officers. As the principal leader of Microsoft, Mr. Ballmer focuses on building our long-term success, and, as a significant shareholder, his personal wealth is tied directly to Microsoft's value. While the Committee and the Board believe Mr. Ballmer is underpaid for his role and performance, they have accepted his request.

The following table illustrates Mr. Ballmer's compensation opportunity for fiscal year 2012, compared to his peers.

CEO pay comparison



(1) Excludes chief executive officers with atypical pay structures such as founders. Figures are based on publicly available information as of August 2012.

Fiscal year 2012 Incentive Plan awards for the other Named Executive Officers are paid 20% in cash and 80% in the form of a restricted stock unit award that is payable in shares of Microsoft common stock. The number of shares subject to each award is determined by dividing 80% of the award amount by the closing market price of Microsoft common stock on the last trading day in August following the end of the fiscal year. Incentive Plan stock awards vest in four equal installments, with the first installment vesting following approval of the awards and subsequent installments vesting on August 31 in each of the following three years.

Establishing compensation opportunities

In September 2011, Mr. Ballmer recommended to the Compensation Committee target Incentive Plan awards for each of the other executive officers. In making these recommendations, he considered a wide array of information that, depending on the officer, included:

- the executive officer's role and responsibilities,
- compensation survey data from our peer groups and supplemental competitive market information that reflects the scale and scope of the executive officer's role. For this purpose peer groups are tailored to consist of companies that are representative of the business the executive officer runs,
- the relationship of total compensation targets among internal peers, and
- information about the market for executive talent gained through the Company's continual monitoring of external market pay practices, our experience recruiting for executive positions at the Company, and efforts by others to recruit our executives.

The Committee, applying its independent judgment, then established a target Incentive Plan award opportunity for each executive officer based on Mr. Ballmer's recommendation, the factors Mr. Ballmer considered when making his recommendation, and input from the Committee's compensation consultant, Semler Brossy.

Each executive officer's Incentive Plan award opportunity is limited to a specified percentage of an incentive pool. For fiscal year 2012, this aggregate incentive pool was set at 0.3% of Microsoft's fiscal year 2012 corporate operating income. In addition, for fiscal year 2012, our Named Executive Officers' potential Incentive Plan awards were further limited to: (i) for Mr. Ballmer, 0% to 200% of his base salary, and (ii) for the other Named Executive Officers, 0% to 150% of the incentive target award.

For fiscal year 2012, in response to market changes described above, the Committee increased target Incentive Plan awards for the Named Executive Officers other than Mr. Ballmer to enhance retention of these key Company leaders, as follows: Mr. DelBene, 32%; Mr. Klein, 58%; Mr. Sinofsky, 21%; Mr. Turner, 14%.

Fiscal year 2012 base salary rates

The Committee considered the factors listed above in establishing base salaries for fiscal year 2012. Base salaries for our executive officers are a small portion of their total compensation. All Named Executive Officers received 15% or less of their compensation as base salary, except for Mr. Ballmer, who at his request receives no equity compensation. Generally, base salary changes are effective as of September 1 in the year the change is approved. The Committee set the following base salary rates for the Named Executive Officers in fiscal year 2012: Mr. Ballmer's salary remained unchanged at $685,000; Mr. DelBene's salary increased 2% to $640,000; Mr. Klein's salary increased 11% to $590,000; Mr. Sinofsky's salary increased 2% to $660,000; Mr. Turner's salary increased 2% to $765,000. Mr. Klein's increase reflected his promotion and a salary increase to a level competitive with other chief financial officer positions at our peer companies.

Fiscal year 2012 performance review and compensation decisions

Each year, our Named Executive Officers participate in a performance review process that leads to the decisions about the size of their Incentive Plan awards for the prior fiscal year.

Performance review process for Mr. Ballmer

The independent members of our Board of Directors conduct Mr. Ballmer's performance review. This review includes an evaluation of Mr. Ballmer's performance based on:

- Mr. Ballmer's self-evaluation of his performance over the past fiscal year and over a multi-year period,
- a summary of Microsoft's performance for the just-completed fiscal year using a wide range of quantitative and qualitative financial, operational, and strategic assessments, which includes key measures that were developed by management and reviewed with our Board of Directors at the beginning of the fiscal year as part of Microsoft's annual business planning process,
- the factors listed below for the performance review of executive officers, and
- the results of interviews conducted by the independent members of our Board of Directors with Mr. Ballmer's direct reports.

After the Board completes its assessment of Mr. Ballmer's performance, the Committee recommends Mr. Ballmer's Incentive Plan award for the just completed fiscal year and any base salary adjustment. The Committee, which meets in executive session to develop its recommendations, does not apply a formula to determine these amounts. Instead, the Committee exercises its business judgment in making its recommendations, taking into consideration the evaluation of Mr. Ballmer's performance, the performance relative to target for the other executive officers over the same period, and the advice of the Committee's compensation consultant.

Fiscal year 2012 award for Mr. Ballmer

For fiscal year 2012, the Compensation Committee recommended and the independent members of our Board of Directors approved an Incentive Plan award of $620,000, which was 91% of his target award. The award was based on his performance self-assessment and other relevant information considered by the independent members of the Board, including: Mr. Ballmer's performance against his individual commitments; the operating income performance of the Company relative to 25 large technology companies (a group that includes most of our Technology Peers); success in substantially completing development of Windows 8 and the new Office suite; successful launch of SQL Server 2012 and System Center 2012 contributing to 12% growth in Server and Tools Business revenue; integration of Skype; progress in introducing new form factors such as Surface; strong operating expense discipline; modest growth in Windows Phone market share; the 3% decline in revenue for the Windows and Windows Live Division (1% after adjusting for the impact of the Windows Upgrade Offer); slower than planned progress in the Online Services Division; the Windows division failure to provide a browser choice screen on certain Windows PCs in Europe as required by its 2009 commitment with the European Commission; and overall solid business performance that produced $31.6 billion in cash flow from operations, an increase of 17%.

Performance review process for other Named Executive Officers

Following the end of the fiscal year, the Committee conducts a comprehensive review of each executive officer's performance and long-term potential. Mr. Ballmer and Lisa Brummel, Chief People Officer, also participated in these discussions.

The Committee places significant weight on Mr. Ballmer's Incentive Plan award recommendations and his evaluation of each executive officer's performance for the fiscal year because of his first-hand knowledge of each officer's performance and contributions. In completing his evaluation, Mr. Ballmer uses information about performance against a wide range of quantitative and qualitative financial, operational, and strategic assessments, a self-evaluation provided by the executive officer, feedback from the executive officer's peers, written feedback and evaluation from the executive officer's direct reports, and a summary of performance against commitments for the fiscal year.

In addition to Mr. Ballmer's evaluation, the information reviewed by the Committee includes company-wide and business division performance against quantitative and qualitative financial, operational and strategic measures, and any other information deemed relevant by the Committee.

The quantitative and qualitative financial, operational, and strategic assessments vary based on individual responsibilities and the business function, division, or group that an executive officer manages. Among the most important factors used in fiscal year 2012 to evaluate performance were:

- Compliance and integrity
- Contribution margin
- Corporate citizenship
- Customer acceptance
- Customer satisfaction
- Developer community satisfaction
- Efficiency and productivity

- Innovation
- Operational excellence
- Organizational culture and leadership
- Organizational diversity
- Product development and implementation
- Quality
- Revenue
- Sales and licensing volume
- Strategic planning

After completing this review process, the Committee, applying its independent judgment, determines each executive officer's Incentive Plan award for the just-completed fiscal year.

Fiscal 2012 awards for other Named Executive Officers

After evaluating our Named Executive Officers' performance for fiscal year 2012, the Committee approved the following incentive plan awards.

Peter Klein

Mr. Klein leads Microsoft's worldwide finance organization. Mr. Klein continued to drive the Company's focus on managing operating expenses even as we invested to reach the threshold of one of the most important set of product launches in the Company's history. This expense management resulted in $31.6 billion in cash flow from operations, an increase of 17%, and contributed to 5% growth in operating income and earnings per share (both as adjusted) in fiscal year 2012. Mr. Klein oversaw the Company's capital allocation plan, which resulted in Microsoft returning $10.7 billion of cash through dividends and share repurchases. Mr. Klein played a leadership role in the negotiation and acquisition of Yammer and oversaw the integration of Skype. Based on his fiscal year 2012 performance, Mr. Klein received an Incentive Plan award of $4,750,000, which was 100% of his target award.

Kurt DelBene

As President of the Microsoft Office Division ("MOD"), Mr. DelBene is responsible for Microsoft's global strategy for information workers and a wide range of productivity products and services, including Office, Exchange, SharePoint, Lync, Project, and Visio.

Under Mr. DelBene's leadership, Office 2010 continued to be the fastest-selling version of Microsoft Office in history and enterprise customers deployed Office 2010 over two and a half times faster than the prior version. In addition, SharePoint, Exchange, and Lync each achieved double-digit revenue growth for the second consecutive year. MOD continued to build on the successful launch of Office 365. In just over a year since its release, Office 365 is offered in 88 markets and 32 languages. MOD also achieved key milestones in the development of the next version of Office including the release of the customer preview in July, which features holistic integration with Windows 8 across a variety of devices. Finally, Mr. DelBene was a key contributor to the strategy that led to pursuing the Yammer acquisition. Based on his fiscal year 2012 performance, Mr. DelBene received an Incentive Plan award of $9,062,500, which was 125% of his target award.

Steven Sinofsky

Mr. Sinofsky has responsibility for the overall Windows business, from development to business strategy and marketing for Windows, Windows Live, and Internet Explorer.

For fiscal year 2012, the Windows division completed the Release Candidate and prepared for the October release of Windows 8, and introduced the Surface, a series of Microsoft-designed and manufactured hardware devices. Windows 7 adoption continued with more than 50% of worldwide enterprise desktops running Windows 7, up from 25% at the end of fiscal year 2011. Windows division revenue decreased 3% (1% after adjusting for the impact of the Windows Upgrade Offer). The newest versions of Internet Explorer (8 and 9) continued to grow share as users switched from the older versions of Internet Explorer. However, at the same time, the Windows division failed to provide a browser choice screen on certain Windows PCs in Europe as required by its 2009 commitment with the European Commission. Based on his fiscal year 2012 performance, Mr. Sinofsky received an Incentive Plan award of $7,650,000, which was 90% of his target award.

Kevin Turner

As Chief Operating Officer, Mr. Turner is responsible for the strategic and operational leadership of Microsoft's worldwide sales, including the consumer channels, marketing, and services organization. In addition, Mr. Turner manages the online advertising sales organization and corporate support organizations, including product and customer support services, branding, advertising, public relations, marketing research, relationship marketing, corporate operations, and internal information technology.

Under Mr. Turner's leadership, enterprise sales grew 12% in the Server and Tools Business, business revenue increased 9% in the Microsoft Business Division, and deferred revenue increased 17% as customer satisfaction increased for the third straight year. The sales organization delivered strong results across product lines in enterprise sales, driving both new business and renewals resulting in increases in virtualized server share and commercial email share and an increase in the total rate of attachment of Windows to PCs shipped. For the full fiscal year, Microsoft revenue was $73.7 billion and operating income was $28.5 billion (as adjusted), representing 5% year-over-year growth for each. These results were delivered while effectively managing operating expenses within the sales organization. Based on his fiscal year 2012 performance, Mr. Turner received an Incentive Plan award of $12,000,000, which was 120% of his target award.

Fiscal year 2013 changes to the Incentive Plan

The Committee agreed with management's assessment that, for fiscal year 2013, it was appropriate for the Incentive Plan structure for executive officers (other than Mr. Ballmer) to evolve to better support current Company business and strategic priorities. For 2013, the focus of awards under the Plan will shift from performance of separate business groups to a combination of business group and company-wide performance. This shift aligns with our overall business strategy to provide integrated product and service offerings, and this requires deeper cross-organization collaboration. The Incentive Plan awards will consist of two components. First, each executive officer will be eligible to receive a performance-based cash award for the fiscal year. The target cash awards will range from 125% to 275% of base salary earned for the fiscal year, depending on the officer; each executive will have the opportunity to receive from 0 to 300% of the target cash award based upon business group and individual performance. Second, each participant other than Mr. Ballmer will receive a fixed stock award determined at the beginning of the fiscal year that vests over four years. The stock awards will continue to deliver the majority (between 69% and 74%) of total target compensation through equity to enhance retention and align the interests of recipients with shareholders. The target cash awards for officers, other than Mr. Ballmer, will range from 17% to 20% of total target compensation. Target total compensation will increase 1% to 2% over fiscal year 2012.

Section 3 – Other compensation policies and information

Executive benefits and perquisites

Our Named Executive Officers are eligible for the same benefits available to our other U.S.-based full-time employees, including our Section 401(k) plan, employee stock purchase plan, health care plan, life insurance plans, and other welfare benefit programs. In addition to the standard benefits offered to all employees, we maintain a non-qualified deferred compensation plan for our executives and senior managers. The deferred compensation plan is unfunded, and participation is voluntary. The deferred compensation plan allows our Named Executive Officers to defer their base salary, the cash portion of their Incentive Plan awards, and certain on-hire bonuses. We do not contribute to the non-qualified deferred compensation plan.

During fiscal year 2012, we did not provide any perquisites to any of our Named Executive Officers.

Post-employment compensation

Our Named Executive Officers do not have employment contracts, and they are not entitled to any payments or benefits following a change in control of Microsoft. They also are not entitled to payments or benefits upon termination of their employment except for:

- All employees who retire from Microsoft in the United States after (a) age 65 or (b) age 55 with 15 years of service are eligible for the continuation of vesting of stock awards granted at hire or at performance review, if they were granted more than one year before retirement.
- Generally, all employees whose employment with Microsoft terminates due to death or total and permanent disability will fully vest in their outstanding stock awards.
- Pursuant to Mr. Turner's employment offer letter, 160,000 shares of his on-hire stock award will vest upon his retirement at age 60 or older.

Executive compensation recovery policy

Accountability is a fundamental value of Microsoft. To reinforce this value through our executive compensation program, our executive officers and certain other senior executives are subject to an executive compensation recovery policy. Under this policy, the Committee may seek to recover payments of incentive compensation if the performance results leading to a payment are later subject to a downward adjustment or restatement of financial or nonfinancial performance. The Committee may use its judgment in determining the amount to be recovered where the incentive compensation was awarded on a discretionary basis, as with awards under the Incentive Plan. The Committee may recover incentive compensation whether or not the executive's actions involve misconduct. When an executive has engaged in intentional misconduct that contributed to the payment, the Committee may take other remedial action, including seeking to recover the entire payment. Our executive compensation recovery policy is available on our website at *www.microsoft.com/investor/recoverypolicy*.

Stock ownership policy

Our executive officers and certain other senior executives are subject to stock ownership requirements to maintain a minimum equity stake in Microsoft. This policy embodies the Committee's belief that our most senior executives should maintain a material personal financial stake in Microsoft to promote a long-term perspective in managing our business. In addition, it helps ensure the alignment of executive and shareholder interests, which reduces incentive for excessive short-term risk taking. Our stock ownership policy requires each covered executive to acquire and maintain ownership of shares of Microsoft common stock equal to a specified multiple of his or her base salary, which ranges from three to ten times salary. In addition, each covered executive must retain 50% of all net shares (post-tax) that vest until achieving the minimum share ownership requirement. As of the end of fiscal year 2012, each of our Named Executive Officers complied with our executive stock ownership policy. Our policy is available on our website at *www.microsoft.com/investor/execstockpolicy*.

Derivatives trading and hedging policy

Our Named Executive Officers are prohibited from trading in options, puts, calls, or other derivative instruments related to Microsoft stock or debt.

Deductibility of executive compensation

In structuring compensation for our Named Executive Officers, the Committee considers, among other things, whether a form of compensation will be deductible for federal income tax purposes or otherwise subject to the $1 million annual deduction limit of Section 162(m) of the Internal Revenue Code. However, other factors may be of greater importance than preserving deductibility for a particular form of compensation. Under federal income tax rules, certain performance-based compensation approved by our shareholders is not subject to this deduction limit. Awards under the Incentive Plan are expected to qualify as performance-based compensation for purposes of Section 162(m). All compensation for our Named Executive Officers in fiscal year 2012 was intended to be deductible under Section 162(m).

Compensation risk assessment

We performed an annual assessment for the Compensation and Audit Committees of our Board of Directors to determine whether the risks arising from any of our fiscal year 2012 compensation policies or practices are reasonably likely to have a material adverse effect on the Company. Our assessment reviewed material elements of executive and non-executive employee compensation. We concluded that these policies and practices do not create risk that is reasonably likely to have a material adverse effect on the Company.

In addition, the structure of our compensation program for executive officers does not incentivize unnecessary or excessive risk taking. The base salary component of compensation does not encourage risk-taking because it is a fixed amount. The Incentive Plan awards have the following risk-limiting characteristics:

- Awards to each executive officer are limited to the least of (a) a fixed maximum specified in the Incentive Plan, (b) a fixed percentage of an incentive pool, or (c) 150% of an incentive target award (200% of base salary for Mr. Ballmer).
- Awards are based on a review of a variety performance factors, thus diversifying the risk associated with any single aspect of performance.
- Awards are not made in the form of stock options, which may provide an asymmetrical incentive to take unnecessary or excessive risks to increase Company stock price.
- Awards are not tied to formulas that could focus executives on specific short-term outcomes.
- Members of the Compensation Committee, or in the case of Mr. Ballmer, the independent members of our Board of Directors, approve the final awards in their discretion, after reviewing executive and corporate performance.
- Awards are subject to our Executive Compensation Recovery Policy, described in Part 4 – "Named Executive Officer compensation – Other compensation policies and information – Executive compensation recovery policy."
- For executive officers other than Mr. Ballmer, the majority of the award value is delivered in the form of shares of common stock with a multi-year vesting schedule, which aligns the interests of our executive officers to long-term shareholder interests. For Mr. Ballmer, this alignment exists by virtue of his being one of Microsoft's largest shareholders.
- Executive officers are subject to our executive stock ownership requirements described in Part 4 – "Named Executive Officer compensation – Other compensation policies and information – Stock ownership policy."

Fiscal year 2012 compensation tables

The following table contains information about compensation awarded to our Named Executive Officers for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010. None of our Named Executive Officers received stock options during fiscal years 2012, 2011, or 2010.

Summary compensation table

Name and principal position	Year	Salary ($)	Bonus[1] ($)	Stock awards[2] ($)	All other compensation[3] ($)	Total ($)
Steven A. Ballmer Chief Executive Officer and Director	2012	685,000	620,000	N/A	13,128	1,318,128
	2011	682,500	682,500	N/A	11,915	1,376,915
	2010	670,000	670,000	N/A	11,121	1,351,121
Peter S. Klein Chief Financial Officer	2012	580,000	950,000	3,567,806	11,030	5,108,836
	2011	525,000	720,000	2,266,321	10,366	3,521,687
	2010[4]	437,508	555,000	2,638,531	12,277	3,643,316
Kurt D. DelBene President, Microsoft Office Division	2012	638,333	1,812,500	5,445,594	10,298	7,906,725
	2011	603,333	1,450,000	4,154,922	10,994	6,219,249
Steven J. Sinofsky President, Windows and Windows Live Division	2012	658,333	1,530,000	6,384,487	10,912	8,583,732
	2011	649,167	1,260,000	5,288,083	10,508	7,207,758
B. Kevin Turner Chief Operating Officer	2012	762,500	2,400,000	7,511,150	10,021	10,683,671
	2011	732,500	1,925,000	6,610,104	9,537	9,277,141
	2010	645,000	1,960,000	5,299,719	9,790	7,914,509

(1) This column reports the 20% of the Incentive Plan awards, and for Mr. Ballmer his entire Incentive Plan award, for the fiscal year that were paid in cash in September following the fiscal year end.

(2) This column reports the 80% of the target Incentive Plan awards for the fiscal year that were payable as stock awards. Mr. Klein's fiscal year 2010 amount in this column includes the stock awards granted during fiscal year 2010 for fiscal year 2009 performance, prior to his promotion to Chief Financial Officer. All amounts in this column are calculated using the grant date fair value under Accounting Standards Codification Topic 718 based on the market price as of the date of grant of common stock awarded, reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting. Our Incentive Plan awards are subject to the Committee's use of negative discretion, precluding a grant date until after the fiscal year end; accordingly, the grant date for these awards is the service inception date, which is the first day of the fiscal year for which the award is made. As a result, these amounts do not reflect the amount of compensation actually received by the Named Executive Officers for the fiscal year.

(3) The amounts in this column are set forth in the table below.

All other compensation

Name	Year	Relocation expense ($)	Tax gross up ($)	401(k) company match ($)	Imputed income received under broad-based benefits program* ($)	Total ($)
Steven A. Ballmer	2012	0	0	7,500	5,628	13,128
	2011	0	0	7,350	4,565	11,915
	2010	0	0	7,350	3,771	11,121
Peter S. Klein	2012	0	0	7,500	3,530	11,030
	2011	0	0	7,350	3,016	10,366
	2010	0	0	9,450	2,827	12,277
Kurt D. DelBene	2012	0	0	7,430	2,868	10,298
	2011	0	0	8,545	2,449	10,994
Steven J. Sinofsky	2012	0	0	7,500	3,412	10,912
	2011	0	0	7,350	3,158	10,508
B. Kevin Turner	2012	0	0	7,500	2,521	10,021
	2011	0	0	7,350	2,187	9,537
	2010	0	0	7,350	2,440	9,790

* These amounts include imputed income from life insurance, disability insurance, and athletic club membership, and payments in lieu of athletic club membership. These benefits are available to substantially all our U.S.-based employees.

(4) Fiscal year 2010 base pay reflects Mr. Klein serving as a business division chief financial officer for four and one-half months and as our corporate Chief Financial Officer for the balance of the year.

The following table provides information on grants of awards under any plan to the Named Executive Officers related to the fiscal year ending June 30, 2012.

Grants of plan-based awards for fiscal year ended June 30, 2012

Name	Award approval date	Grant date[1]	Stock awards (#)	Grant date fair value of stock awards[2, 3] ($)
Steven A. Ballmer	N/A	N/A	N/A	N/A
Peter S. Klein	9/7/2012	7/1/2011	146,042	3,567,806
Kurt D. DelBene	9/7/2012	7/1/2011	222,906	5,445,594
Steven J. Sinofsky	9/7/2012	7/1/2011	261,338	6,384,487
B. Kevin Turner	9/7/2012	7/1/2011	307,456	7,511,150

(1) For Incentive Plan awards, the Committee's use of negative discretion precludes a grant date until after the fiscal year end; accordingly, the grant date reported in this table for these awards is the July 1, 2011 service inception date, the first day of fiscal year 2012.

(2) The values in this column represent the grant date fair value of the 80% of the fiscal year 2012 target Incentive Plan awards payable as stock awards. The actual Incentive Plan stock awards approved effective September 7, 2012 with respect to these target awards are described in Section 2 – "Compensation setting process and decisions for fiscal year 2012" of the Compensation Discussion and Analysis above. The grant date fair value is based on the Accounting Standards Codification Topic 718 fair value of the award before any forfeiture adjustments. We measure the grant date fair value of these stock awards based on the market price as of the grant date reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting.

(3) This table reports target stock awards for fiscal year 2012. The table below shows actual stock awards, approved in fiscal year 2012, for the fiscal year 2011 performance of our Named Executive Officers who also served as executive officers in fiscal year 2011.

Name	Stock awards (#)	Award value* ($)
Peter S. Klein	108,271	2,785,813
Kurt D. DelBene	218,046	5,610,324
Steven J. Sinofsky	189,474	4,875,166
B. Kevin Turner	289,474	7,448,166

* These award values are calculated based on the Accounting Standards Codification Topic 718 fair value of the award on the September 20, 2011 approval date, before any forfeiture adjustments, reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting.

The following table provides information on exercisable and unexercisable stock options and unvested stock awards held by the Named Executive Officers on June 30, 2012.

Outstanding equity awards at fiscal year end June 30, 2012

Name	Option awards		Stock awards	
	Number of securities underlying unexercised options (#)		Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested* ($)
	Exercisable	Unexercisable		
Steven A. Ballmer	N/A	N/A	N/A	N/A
Peter S. Klein	N/A	N/A	155,771	4,765,035
Kurt D. DelBene	N/A	N/A	222,765	6,814,381
Steven J. Sinofsky	N/A	N/A	291,402	8,913,987
B. Kevin Turner	N/A	N/A	582,784	17,827,363

* The market value is the number of shares shown in the table multiplied by $30.59, the closing market price of Microsoft common stock on June 29, 2012.

The following table shows the dates on which the awards in the outstanding equity awards table vest and the corresponding number of shares, subject to continued employment through the vest date.

Vesting dates and number of shares

Name	2012		2013		2014	Retirement at age 60 or older	Total
	8/29	8/31	8/29	8/31	8/31		
Steven A. Ballmer	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Peter S. Klein	3,628	62,510	3,628	54,829	31,176	N/A	155,771
Kurt D. DelBene	3,664	82,720	3,665	72,930	59,786	N/A	222,765
Steven J. Sinofsky	7,695	124,593	7,696	104,049	47,369	N/A	291,402
B. Kevin Turner	0	194,518	0	155,897	72,369	160,000	582,784

The following table provides information, on an aggregate basis, about stock options that were exercised and stock awards that vested during the fiscal year ended June 30, 2012 for each of the Named Executive Officers.

Option exercises and stock awards vested for fiscal year ended June 30, 2012

Name	Option awards		Stock awards	
	Number of shares acquired on exercise (#)	Value realized on exercise[1] ($)	Number of shares acquired on vesting (#)	Value realized on vesting[2] (#)
Steven A. Ballmer	N/A	N/A	N/A	N/A
Peter S. Klein	N/A	N/A	76,855	2,036,267
Kurt D. DelBene	77,778	694,838	102,261	2,732,135
Steven J. Sinofsky	611,111	3,379,750	172,750	4,570,112
B. Kevin Turner	N/A	N/A	258,447	6,849,985

(1) The value realized on exercise is calculated as the difference between the actual sales price of the shares underlying the options exercised and the applicable exercise price of those options.

(2) The value realized on vesting is calculated by multiplying the number of shares shown in the table by the closing stock price on the day prior to vest.

The following table provides information about contributions, earnings, and balances under our non-qualified deferred compensation plan in fiscal year 2012. Microsoft does not contribute to the deferred compensation plan, and in fiscal year 2012 there were no withdrawals by or distributions to Named Executive Officers.

Non-qualified deferred compensation

Name	Executive contributions in fiscal year 2012[1] ($)	Aggregate earnings in fiscal year 2012[2] ($)	Aggregate balance at June 30, 2012 ($)
Steven A. Ballmer	N/A	N/A	N/A
Peter S. Klein	N/A	N/A	N/A
Kurt D. DelBene	1,769,167	506,779	6,217,711
Steven J. Sinofsky	N/A	N/A	N/A
B. Kevin Turner	N/A	N/A	N/A

(1) The amount in this column includes $319,167 deferred from fiscal year 2012 salary, which is reported in the Salary Column of the Summary Compensation Table, and $1,450,000 deferred from a fiscal year 2011 Incentive Plan award, which is reported in the Bonus Column of the Summary Compensation Table.

(2) The amount in this column is not included in the Summary Compensation Table because plan earnings were not preferential or above-market.

Microsoft's deferred compensation plan is unfunded and unsecured. It allows participants to defer a specified percentage of their base salary (up to 50%), and/or eligible incentive cash payments (up to 100%). Participation in the deferred compensation plan is limited to senior management, including our Named Executive Officers. Microsoft does not contribute to the deferred compensation plan or guarantee any returns on participant contributions.

At the time an employee elects to participate in the deferred compensation plan, the employee must specify the amount of base salary and/or the percentage of incentive award to be deferred, as well as the timing of distributions. If employment terminates before retirement (defined as at least age 55 with 10 years of service, or age 65), distribution is made in the form of a lump sum following termination. At retirement, benefits are paid according to the distribution election made by the participant at the time of the deferral election. No withdrawals are permitted during employment or prior to the previously elected distribution date, other than "hardship withdrawals" as permitted by applicable law. Amounts deferred under the deferred compensation plan are credited with hypothetical investment earnings based on participant investment elections made from among investment options available under the plan.

The following table provides information about shares of Microsoft stock that may be issued under our equity compensation plans approved by shareholders and plans not approved by shareholders.

Equity compensation plan information as of June 30, 2012

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights[1]	Weighted average exercise price of outstanding options, warrants, and rights[2]	Number of securities remaining available for future issuance under equity compensation plans[3]
Equity compensation plans approved by security holders[4]	303,093,421	$18.6897	530,724,985
Equity compensation plans not approved by security holders	0	N/A	0
Total	303,093,421	$18.6897	530,724,985

(1) Includes 270 million shares issuable upon vesting of outstanding stock awards granted under the 2001 Stock Plan and 11 million shares issuable under outstanding performance-based stock awards granted under the 2001 Stock Plan (assuming target performance).

(2) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding stock awards, which have no exercise price.

(3) Includes 23 million shares remaining available for issuance as of June 30, 2012 under the 2003 Employee Stock Purchase Plan.

(4) Under the 2001 Stock Plan, no award may be repriced, replaced, regranted through cancellation, or modified without shareholder approval (except in connection with a change in our capitalization), if the effect would be to reduce the exercise price for the share underlying such award.

Compensation committee interlocks and insider participation

Dina Dublon, Maria M. Klawe, and Helmut Panke were members of the Compensation Committee throughout fiscal year 2012. Mr. Hastings stepped down from the Committee and John Thompson joined the Committee in May 2012. All members of the Committee were independent directors, and no member was an employee or former employee of Microsoft. During fiscal year 2012, none of our executive officers served on the compensation committee (or its equivalent) or board of directors of another entity whose executive officer served on our Compensation Committee.

Compensation committee report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis provided above. Based on its review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee
Dina Dublon (Chair)
Maria M. Klawe
John W. Thompson