

**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, 2013

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
(STATE OF INCORPORATION)

91-1144442
(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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation
Redmond, Washington

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2013, 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, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 30, 2013, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ D ELOITTE & T OUCHE LLP

Seattle, Washington
July 30, 2013

The components of accumulated other comprehensive income were as follows:

(In millions)

June 30,	2013	2012	2011
Net unrealized gains (losses) on derivatives	\$ 66	\$ 92	\$ (163)
Net unrealized gains on investments	1,794	1,431	1,821
Translation adjustments and other	(117)	(101)	205
Accumulated other comprehensive income	\$ 1,743	\$ 1,422	\$ 1,863

NOTE 20 — EMPLOYEE STOCK AND SAVINGS PLANS

We grant stock-based compensation to directors and employees. At June 30, 2013, an aggregate of 425 million shares were authorized for future grant under our stock plans, covering stock options, stock awards, and leadership stock awards. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plans. We issue new shares of Microsoft common stock to satisfy exercises and vesting of awards granted under all of our stock plans.

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

(In millions)

Year Ended June 30,	2013	2012	2011
Stock-based compensation expense	\$ 2,406	\$ 2,244	\$ 2,166
Income tax benefits related to stock-based compensation	\$ 842	\$ 785	\$ 758

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. SAs generally vest over a five-year period.

Leadership stock awards

Leadership stock awards (“LSAs”) are a form of SAs in which the number of shares ultimately received depends on our business performance against specified performance metrics. LSAs replaced shared performance stock awards (“SPSA”) in fiscal year 2013. Shares previously issued under the SPSA program will continue to vest ratably under their original term, generally with a three-year remaining service period.

A base number of LSAs are granted in each fiscal year, which represents the performance period for the awards. Following the end of the performance period, the number of shares can be increased by 25% if certain performance metrics are met. One quarter of the awarded shares will vest one year after the grant date. The remaining shares will vest semi-annually during the following three years.

Executive incentive plan

Under the Executive Incentive Plan (“EIP”), the Compensation Committee awards performance-based compensation comprising both cash and SAs to executive officers and certain senior executives. For executive officers, their awards are based on an aggregate incentive pool equal to a percentage of consolidated operating income. For fiscal years 2013, 2012, and 2011, the pool was 0.35%, 0.3%, and 0.25% of operating income, respectively. The SAs vest ratably in August of each of the four years following the grant date. The final cash awards will be determined after each performance period based on individual and business performance.

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PART II
Item 8

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,	2013	2012	2011
Dividends per share (quarterly amounts)	\$ 0.20 - \$ 0.23	\$ 0.16 - \$ 0.20	\$ 0.13 - \$ 0.16
Interest rates range	0.6% - 1.1%	0.7% - 1.7%	1.1% - 2.4%

During fiscal year 2013, the following activity occurred under our stock plans:

	Shares (In millions)	Weighted Average Grant-Date Fair Value
Stock Awards		
Nonvested balance, beginning of year	281	\$ 23.91
Granted	104	\$ 28.37
Vested	(90)	\$ 24.49
Forfeited	(22)	\$ 25.10
Nonvested balance, end of year	273	\$ 25.50

As of June 30, 2013, there was approximately \$5.0 billion of total unrecognized compensation costs related to stock awards. These costs are expected to be recognized over a weighted average period of 3 years.

During fiscal year 2012 and 2011, the following activity occurred under our stock plans:

(In millions, except fair values)	2012	2011
Stock Awards		
Awards granted	110	132
Weighted average grant-date fair value	\$ 24.60	\$ 22.22

Total vest-date fair value of stock awards vested was \$2.8 billion, \$2.4 billion, and \$1.8 billion, for fiscal years 2013, 2012, and 2011, respectively.

Stock Options

Currently, we grant stock options primarily in conjunction with business acquisitions. We granted two million, six million, and zero stock options in conjunction with business acquisitions during fiscal years 2013, 2012, and 2011, respectively.

Employee stock options activity during 2013 was as follows:

	Shares (In millions)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In millions)
Balance, July 1, 2012	22	\$ 18.69		
Granted	2	\$ 2.08		
Exercised	(19)	\$ 19.26		
Canceled	(1)	\$ 14.71		

Balance, June 30, 2013	4	\$	6.88	6.74	\$	98
Exercisable, June 30, 2013	2	\$	8.47	5.79	\$	50

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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Microsoft Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

-
- Fee paid previously with preliminary materials.
 - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

Compensation Committee interlocks and insider participation

Dina Dublon, Maria M. Klawe, Stephen Luczo and John W. Thompson were members of the Compensation Committee during fiscal year 2013 (Mr. Thompson left the Committee and Mr. Luczo joined on June 12, 2013). All members of the Committee were independent directors,

and no member was an employee or former employee of Microsoft. During fiscal year 2013, 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
Stephen J. Luczo (Chair)
Maria M. Klawe

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The following table contains information about compensation awarded to our Named Executive Officers for the fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011. None of our Named Executive Officers received stock options during those fiscal years.

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	2013	697,500	550,000	N/A	13,718	1,261,218
	2012	685,000	620,000	N/A	13,128	1,318,128
	2011	682,500	682,500	N/A	11,915	1,376,915
Amy E. Hood Chief Financial Officer	2013	365,954	457,443	6,626,019 ³	11,153	7,460,569
Peter S. Klein Former Chief Financial Officer	2013	598,333	N/A	3,542,323	11,820	4,152,476
	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
Kurt D. DelBene President, Microsoft Office Division	2013	669,167	1,505,625	5,406,699	10,954	7,592,445
	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
Satya Nadella President, Server and Tools	2013	669,167	1,580,906	5,406,699	12,180	7,668,952
B. Kevin Turner Chief Operating Officer	2013	777,500	2,138,125	7,457,504	10,484	10,383,613
	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

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- (1) This column reports Incentive Plan awards for the fiscal year that were paid in cash in September following the fiscal year end.
- (2) This column reports the Incentive Plan stock awards for the fiscal year, and any other stock awards granted outside the Incentive Plan during fiscal year 2013. 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.
- (3) Ms. Hood's fiscal year 2013 amount includes an award of 103,413 shares (with a grant date fair value of \$3,319,557) she received in connection with her promotion to Chief Financial Officer. Her stock award amount also includes 21,617 shares (with a grant date fair value of \$639,215) awarded during fiscal year 2013 for her fiscal year 2012 performance in her prior role.

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(4) 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 (\$)	Income received under broad-based benefits program* (\$)	Total (\$)
Steven A. Ballmer	2013	0	0	7,650	6,068	13,718
	2012	0	0	7,500	5,628	13,128
	2011	0	0	7,350	4,565	11,915
Amy E. Hood	2013	0	0	8,614	2,539	11,153
Peter S. Klein	2013	0	0	7,650	4,170	11,820
	2012	0	0	7,500	3,530	11,030
	2011	0	0	7,350	3,016	10,366
Kurt D. DelBene	2013	0	0	7,763	3,191	10,954
	2012	0	0	7,430	2,868	10,298
	2011	0	0	8,545	2,449	10,994
Satya Nadella	2013	0	0	7,650	4,530	12,180
B. Kevin Turner	2013	0	0	7,650	2,834	10,484
	2012	0	0	7,500	2,521	10,021
	2011	0	0	7,350	2,187	9,537

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

The following table provides information on grants of awards under any plan to the Named Executive Officers related to the fiscal year ended June 30, 2013.

Grants of plan-based awards for fiscal year ended June 30, 2013

Name	Grant date	Approval date	Stock awards (#)	Grant date fair value of stock awards 1, (\$)
Steven A. Ballmer	N/A	N/A	N/A	N/A
Amy E. Hood	8/31/2012	8/30/2012	36,422 ²	1,045,917
	8/31/2012	8/30/2012	21,617 ³	639,215
	5/15/2013	5/15/2013	103,413 ⁴	3,319,557
	5/15/2013	5/15/2013	82,731 ⁵	2,667,247
Peter S. Klein	9/10/2012	9/10/2012	123,297	3,542,323
Kurt D. DelBene	9/10/2012	9/10/2012	188,190	5,406,699
Satya Nadella	9/10/2012	9/10/2012	188,190	5,406,699
B. Kevin Turner	9/10/2012	9/10/2012	259,572	7,457,504

- (1) 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.
- (2) Represents stock awards granted to Ms. Hood before her promotion to Chief Financial Officer, which were rescinded and reissued with an award having terms consistent with stock awards under the Incentive Plan for fiscal year 2013 in connection with the promotion.
- (3) Represents an award Ms. Hood received during fiscal year 2013 for her fiscal year 2012 performance in her prior role.
- (4) Represents an award Ms. Hood received in connection with her promotion to Chief Financial Officer.
- (5) Represents the reissued award Ms. Hood received under the Incentive Plan as compensation in her expanded role as Chief Financial Officer.

