MICROSOFT CORP
Form DEFA14A
November 14, 2014

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. __)

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Microsoft Corporation

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November 14, 2014

Dear Shareholder,

Microsoft is holding its next annual shareholders meeting on December 3, 2014. Ahead of this meeting, I would like to thank you for your continued investment in Microsoft, update you on some of the tremendous changes that have taken place over the past year, and ask for your support on the proposals that will be presented at our annual shareholders meeting. In the presentation that accompanies this letter, you will find greater detail about the changes at Microsoft over the past year and our shareholder meeting items.

Over the last year, Microsoft has undergone a major strategic transformation which has included executive and Board leadership changes and reinvigoration of our strategic focus. The Board of Directors recognizes the importance of communicating with our shareholders during this time in Microsoft s history. Four areas were of great significance to the Board and leadership team over the past 12 months.

CEO Succession. Satya Nadella was appointed CEO in February 2014, after an extensive search for a CEO with the ability to lead Microsoft into its next chapter of innovation and growth.

Creation of Independent Chairman Role. With this CEO succession, the Board also created an Independent Chairman role and the independent members of the Board elected me to this position. I previously served as Microsoft s lead independent director.

Four New Independent Directors. Microsoft has a regular practice of adding new directors with fresh perspectives and complementary skills to the boardroom. During 2014, the Board added four new independent directors, each of whom bring a wealth of diverse experience, expertise, and skills to our Board. The average director tenure of our directors standing for election is 6.2 years.

Redesigned Compensation Structure for our New CEO. To attract and motivate a world-class CEO that could lead Microsoft through its strategic transformation, the Board designed a compensation structure comprising competitive annual compensation and a one-time long-term equity grant that motivates our CEO to create sustainable long term shareholder value by providing him with the opportunity to share in those gains and build ownership in the company over the next seven years. Over 80% of the reward opportunity is performance-based measured by our total shareholder return (TSR) relative to the S&P 500. To earn the target value of this award, Microsoft s TSR must exceed the 60th percentile of the S&P 500 over each of three overlapping five-year performance periods that extend to 2021. We are committed to adopting metric-based annual incentive pay for all of our executive officers next fiscal year.

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. Over the past three years we have had consistent growth in TSR, cash returned to shareholders, revenue and diluted earnings per share (EPS). In fiscal 2014 we achieved:

12% increase in revenue

2% increase in diluted EPS

24% TSR

$15.7 billion returned to shareholders through dividends and stock buybacks

Annual Shareholders Meeting Items

At the December 3 annual meeting, our shareholders will vote on three management proposals.

Election of ten directors. Our director nominees represent an engaged, skilled group of individuals that have the experience and expertise to help guide Microsoft through its next chapter of innovation. These nominees include four new independent directors: Teri List-Stoll, Mason Morfit, Charles Scharf, and John Stanton. There is more information about our Board nominees in our proxy statement and on pages 5 and 6 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. The long-term incentive award for our CEO introduces a highly performance-based component to our pay program. We intend to carry forward this move toward more performance-based compensation by introducing specific performance metrics for executive incentive pay next fiscal year. More information about our executive compensation program can be found in our proxy statement and on pages 7 through 11 of the presentation.

Ratification of auditors. The Audit Committee has selected Deloitte & Touche as the independent auditor for fiscal 2015.

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

Shareholders will also vote on a shareholder proposal that seeks to establish proxy access. While the Board is committed to strong governance practices, this proposal is not in the best interest of shareholders because it provides significant opportunities for misuse by shareholders with a short-term interest and lacks important safeguards that would protect the interests of long-term shareholders. More information about this proposal and the reasons for the Board s opposition can be found in our proxy statement and on page 13 of the presentation. ***The Board encourages you to vote AGAINST proposal 4.***

As we approach our annual shareholders meeting, the Board and I invite you to write us at 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.

I appreciate the opportunity to serve Microsoft on your behalf.

Sincerely,

John W. Thompson

Chairman of the Board

Microsoft Corporation