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Letter of Comment No: $\frac{40}{0}$ File Reference: 1101-001 Date Received: $\frac{1}{5}$

Microsoft*

November 4, 2002

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Mcrritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 1101-001

Dear Sue:

Microsoft appreciates the opportunity to respond to the Exposure Draft (ED), "Accounting for Stock-Based Compensation—Transition and Disclosure". For purposes of consistency, we believe it is critical that only one transition method be provided upon the adoption of the fair value method of recording expenses relating to employee stock options. Also, while we agree with the requirement to present stock option disclosures in interim financial statements, we do not agree with the requirement that all this information be disclosed in the Accounting Policies footnote.

Depending upon the transition method selected, the comparability of reported information could be further impaired and we urge the Board to require a single transition method. While Microsoft acknowledges that the current choice of accounting methods for stock-based employee compensation continues to exist, it is apparent to us that standard setters are, or soon will be, addressing this issue and comparability across companies and industries should not be further impaired with multiple transition alternatives.

Microsoft has historically presented a full "alternative income statement" based on the fair value method of recording expenses relating to employee stock options in its quarterly earnings release and agrees that the pro forma disclosures required under Statement 123 should be provided on a quarterly basis. However, we disagree with the requirement that items such as pro forma net income and earnings per share be disclosed in the Accounting Policies footnote versus elsewhere in the footnotes. As stated in paragraph 12 of APB Opinion 22, "Disclosure of accounting policies should *identify* and *describe* the accounting principles followed by the reporting entity and the *methods of applying* those principles that materially affect the determination of financial position, cash flows, or results of operations". [Emphasis added.]

Sincerely,

Bob Laux