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June 6, 2011

Ms. Susan Cospier
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 2011-180

Dear Sue:

Microsoft appreciates the opportunity to respond to the Exposure Draft (ED), “Testing Goodwill for Impairment”. As indicated in the ED, the proposed Update would permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test currently required under Topic 350. Stated another way, and as articulated in paragraph BC11 of the ED, if it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, an entity would not be required to perform the two-step goodwill impairment test currently required under Topic 350.

We are supportive of a qualitative approach for testing goodwill for impairment in order to reduce the cost and complexity of performing the first step of the two-step goodwill impairment test. However, given the numerous factors and significant assumptions to consider in estimating the fair value of a reporting unit, we believe a qualitative threshold of more likely than not is too low of a threshold for purposes of testing goodwill for impairment. Accordingly, Microsoft believes the qualitative assessment should be that if it is probable that the fair value of a reporting unit is greater than its carrying amount, an entity would not be required to perform the two-step goodwill impairment test.

Microsoft believes a probable threshold rather than a more likely than not threshold is more consistent with the guidance in the ED which indicates that “if an entity has a recent fair value calculation for a reporting unit, it also may include as a factor in its consideration whether the fair value exceeded the carrying amount by a substantial margin in deciding whether the first step of the impairment test is necessary”. Given the significance and variability of assumptions that may impact the estimate of a reporting unit’s fair value, such as terminal value and the weighted average cost of capital, we believe it is more appropriate to have a higher hurdle for the qualitative approach for testing goodwill for impairment.

Our responses to the questions raised in the ED are attached. We have excluded questions that are not specific to Microsoft. If you have any questions, please contact me at (425) 703-6094.

Sincerely,

Bob Laux
Senior Director, Financial Accounting and Reporting

Attachment

Question 1— *Please describe the entity or individual responding to this request. For example:*

- a. *Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.*
- b. *If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).*
- c. *If you are an auditor, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.*
- d. *If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).*

Response: Microsoft is a preparer of financial statements. We generate revenue by developing, manufacturing, licensing, and supporting a wide range of software products and services. We also design and sell hardware, including the Xbox 360 gaming and entertainment console. We employ approximately 90,000 people on a full-time basis and our common stock is traded on the NASDAQ Stock Market.

Question 2— *For preparers, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why.*

Response: We are supportive of a qualitative approach for testing goodwill for impairment in order to reduce the cost and complexity of performing the first step of the two-step goodwill impairment test. However, given the numerous factors and significant assumptions to consider in estimating the fair value of a reporting unit, we believe a qualitative threshold of more likely than not is too low of a threshold for purposes of testing goodwill for impairment. Accordingly, Microsoft believes the qualitative assessment should be that if it is probable that the fair value of a reporting unit is greater than its carrying amount, an entity would not be required to perform the two-step goodwill impairment test.

Question 3— *For preparers, do you expect your entity will choose to perform the qualitative assessment proposed in the amendments, or will your entity choose to proceed directly to performing the first step of the two-step impairment test? Please explain.*

Response: For reporting units where the fair value has exceeded the carrying amount by a substantial margin and there are no relevant events or circumstances that indicate a change, we believe we would choose to perform a qualitative assessment in order to reduce the cost of testing goodwill for impairment.

Question 6— *Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?*

Response: Yes, Microsoft believes that the expanded examples of events and circumstances to be assessed are adequate and are an improvement over previous guidance.

Question 7— *Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?*

Response: Yes, we believe the guidance on how an entity should assess relevant events or circumstances is clear.

Question 8— *Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.*

Response: Yes, similar to the Board's Basis for Conclusions, we are not aware of significant differences in how users of nonpublic entity financial statements and users of public entity financial statements evaluate an entity's goodwill balance or goodwill impairment loss.

Question 9— *Do you agree with the proposed effective date provisions? If not, please explain why.*

Response: Microsoft agrees with the proposed effective date of fiscal years beginning after December 15, 2011, with early adoption permitted.