

## ESO

### Microsoft Corporation (MSFT)


Values in Millions except per share amounts

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<p><b>Employee Stock Options (ESOs) affect the economics of businesses in two ways:</b></p> <ol style="list-style-type: none"> <li>1. The economic cost of annual option grants is a compensation expense</li> <li>2. The value of all outstanding ESOs is a liability we deduct from free cash flows available to existing shareholders.</li> </ol>															
<p><b>Calculating the Annual ESO Costs</b></p> <p>a. Annual ESO expense is calculated by multiplying the value of each option granted by the net number of options expected to vest</p> <p>The net number of options expected to vest equals the number of options granted minus the total number of options expected to be cancelled between the grant and vesting dates</p>															
Cumulative ESO Outstanding At End of Fiscal Year	1,784.0	1,532.0	1,664.0	1,796.0	1,604.0	1,549.0	949.0	864.0	750.0	524.0	364.0	330.0	187.0	93.0	22.0
ESO Granted During Fiscal Year	276.0	156.0	608.0	448.0	82.0	254.0	2.0	0.0	3.0	3.0	10.0	1.0	1.0	0.0	6.0
ESO Cancelled During Fiscal Year	52.0	60.0	80.0	70.0	76.0	75.0	59.0	43.0	41.0	95.0	49.0	29.0	70.0	15.0	13.0
ESO Churn Rate	2.9%	3.9%	4.8%	3.9%	4.7%	4.8%	6.2%	5.0%	5.5%	18.1%	13.5%	8.8%	20.0%	8.0%	14.0%
ESO - Number of Options at End of Vesting Period	252.6	138.4	524.5	397.6	70.9	218.9	1.6	0.0	2.5	1.6	6.5	0.8	0.5	0.0	3.8
ESO - Value of Each Option Granted During Fiscal Year	\$5.90	\$10.45	\$18.34	\$14.66	\$15.78	\$12.08	\$10.13	-	\$8.93	\$10.78	\$3.25	\$0.81	\$1.21	-	\$1.92
<p><b>Because ESOs are actually warrants, we convert them into options to calculate the Annual ESO Expense</b></p>															
Total Adjusted Basic Shares Outstanding	11,512.0	11,588.0	12,017.0	12,466.1	12,416.0	12,272.0	11,749.3	11,703.0	11,188.0	10,266.0	9,692.0	9,275.0	9,000.0	8,583.0	8,418.0
ESO Warrant Conversion Rate	97.9%	98.8%	95.8%	96.9%	99.4%	98.2%	100.0%	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%	100.0%	100.0%
 ESO Expense (Employee Stock Options)	\$1,459.36	\$1,429.00	\$9,213.79	\$5,647.17	\$1,112.61	\$2,597.54	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ESO Expense as a % of Revenue	10.1%	7.2%	40.1%	22.3%	3.9%	8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ESO Expense After Tax	\$920.69	\$927.06	\$6,019.94	\$3,750.13	\$749.13	\$1,760.16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ESO After Tax as % of Revenue	6.4%	4.7%	26.2%	14.8%	2.6%	5.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ESO Expense Per Share	\$0.09	\$0.09	\$0.58	\$0.35	\$0.07	\$0.16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Diluted GAAP EPS	\$0.42	\$0.71	\$0.85	\$0.66	\$0.70	\$0.92	\$0.75	\$1.12	\$1.20	\$1.42	\$1.87	\$1.62	\$2.10	\$2.69	\$2.00