

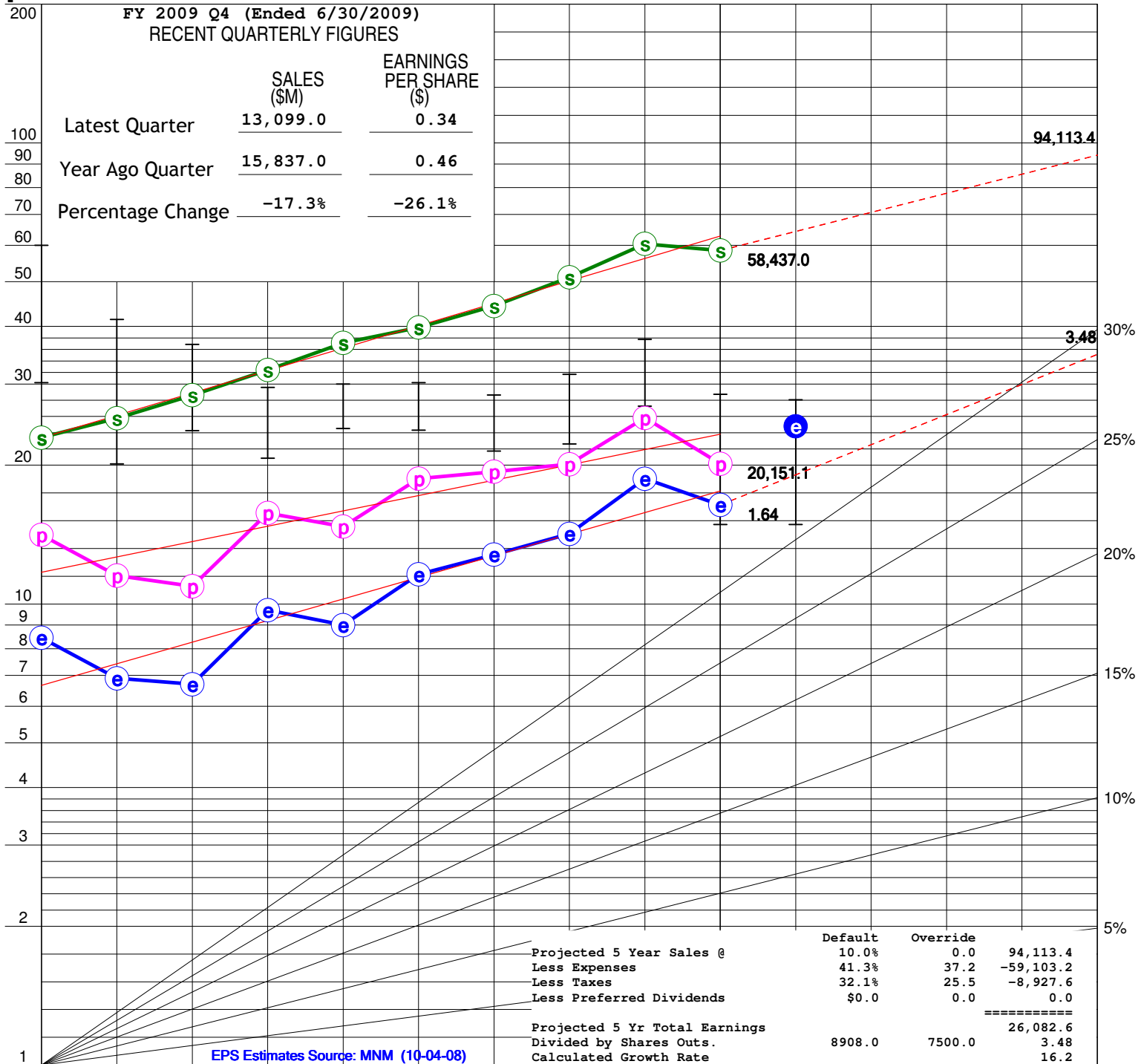


Stock Study

Company	MICROSOFT CORPORATION	Price Date	09/11/09
Study by	MG	Data Date	09/11/09
Sector	Information Technology	Data Source	NAIC Data
Industry	Systems Software	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	8,908.0	% Insiders	12.9
Debt(\$M)	5,759.0	% Institutions	63.2
% to Tot.Cap.	12.7	Quality	B+ (S&P)

1 Growth Analysis

NASDAQMSFT



(1) Historical Sales Growth	11.9 %	(3) Historical Earnings Per Share Growth	11.4 %	www.iclub.com
(2) Estimated Future Sales Growth	10.0 %	(4) Estimated Future Earnings Per Share Growth	16.2 %	
(5) Sales Growth R^2	0.99	(6) Earnings Per Share Growth R^2	0.86	

2 QUALITY ANALYSIS

Company **MICROSOFT CORPORATION (MSFT)**

09/11/09

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5 YEAR AVG.	TREND UP / DOWN
A % Pre-tax Profit on Sales	61.5	45.6	38.5	48.9	40.0	47.0	43.7	39.3	41.9	34.5	41.3	DOWN
B % ROE (Beginning Yr)	NMF	17.6	15.3	19.9	15.9	16.8	28.5	35.6	56.4	41.4	35.7	UP
C % Debt to Equity	NMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.5	1.9	UP

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE 24.860 52-WEEK HIGH 27.740 52-WEEK LOW 14.870

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2005	30.2	23.8	1.16	26.0	20.5	3.320	286.2	13.9
2 2006	28.4	21.5	1.28	22.2	16.8	0.340	26.6	1.6
3 2007	31.5	22.2	1.42	22.2	15.6	0.390	27.5	1.8
4 2008	37.5	26.9	1.87	20.1	14.4	0.430	23.0	1.6
5 2009	28.5	14.9	1.64	17.4	9.1	0.500	30.5	3.4
6 AVERAGE		21.9		21.6	15.3		26.9	
AVERAGE P/E RATIO	18.5		PROJECTED P/E RATIO	13.0		TTM EPS		1.65
CURRENT P/E RATIO	15.1		PEG RATIO	0.8		FTM EPS		1.92
RELATIVE VALUE	81.6%		PROJ. RELATIVE VALUE	70.1%				

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS – NEXT 5 YEARS

Selected High P/E ~~21.6~~ 21.0 X Estimated High Earnings/Share 3.48 = Forecast High Price \$ 73.1

B FUTURE LOW PRICE ANALYSIS – NEXT 5 YEARS

(a) Avg. Low P/E ~~15.3~~ 15.0 (as adj.) X Estimated Low Earnings/Share 1.65 = \$ 24.7

(b) Average 5-Year Low Price = 21.9

(c) Recent Severe Low Price = 14.9

(d) Price Dividend Will Support = Present Divd. + High Yield = 0.520 + 0.139 = 3.7

Selected Estimated Low Price _____ = \$ 14.9

C PRICE RANGES

Forecast High Price 73.1 - Estimated Low Price 14.9 = Range 58.2 25% of Range = 14.6

BUY (Lower 25% of Range) = 14.9 to 29.5

MAYBE (Middle 50% of Range) = 29.5 to 58.5

SELL (Upper 25% of Range) = 58.5 to 73.1

Current Price 24.860 is in the Buy Range

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 73.1 - Current Price 24.860) + (Current Price 24.860 - Estimated Low Price 14.9) = 4.8 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend \$ 0.520 ÷ Current Price of Stock \$ 24.860 = 2.1 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

(Avg. EPS Next 5 Years 2.57 X Avg. % Payout 26.9) ÷ Current Price \$ 24.860 = 2.8 %

C % COMPOUND ANNUAL TOTAL RETURN

Average Yield 1.3 % + Annual Appreciation 24.1 % = Compound Annual Total Return 25.4 %

D % PROJECTED AVERAGE RETURN

Average Yield 1.5 % + Annual Appreciation 20.3 % = Projected Average Total Return 21.8 %



Quarterly Trend Analysis

Company MICROSOFT CORPORATION

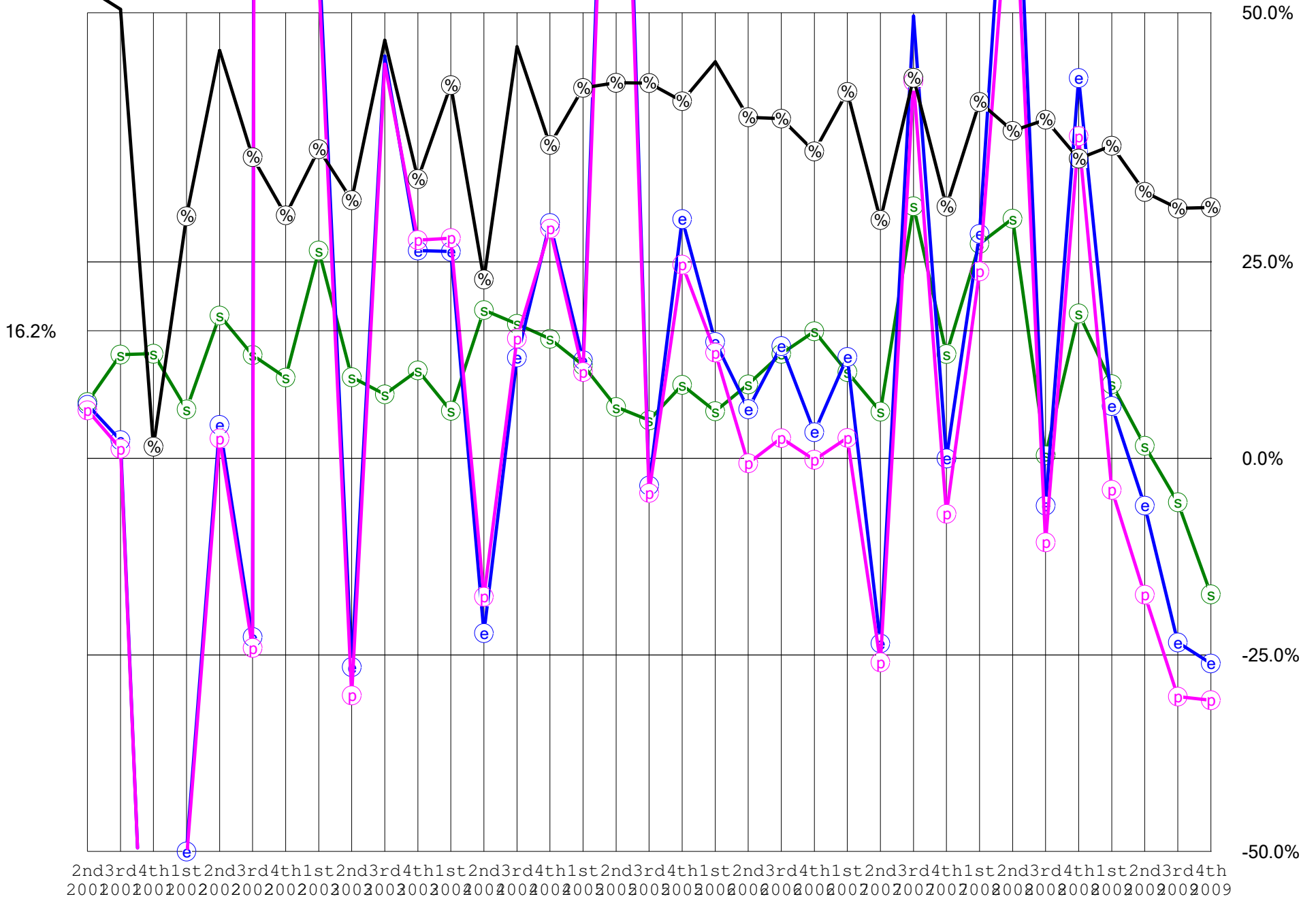
(MSFT)

QUARTERLY DATA									LAST 12 MONTHS DATA								
PERIOD	EPS		PRE-TAX PROFIT			SALES		INCOME TAX RATE	EPS \$	PRE-TAX PROFIT		SALES MIL	INCOME TAX		% CHANGE		
	\$	% CHANGE	\$ MIL	% SALES	% CHANGE	\$ MIL	% CHANGE			\$ MIL	% SALES		\$ MIL	% RATE	EPS	PRE-TAX PROFIT	SALES
09/00	0.23	21.1	3,852.00	66.8	21.7	5,766.00	7.1	33.6	0.89	14,807.00	63.4	23,338.0	4,994.5	33.7			
12/00	0.24	6.8	3,917.00	59.8	6.1	6,550.00	7.2	33.2	0.90	15,033.00	63.2	23,776.0	5,040.0	33.5			
03/01	0.22	2.3	3,658.00	57.1	1.2	6,403.00	13.2	33.1	0.91	15,078.00	61.5	24,523.0	5,019.5	33.3			
06/01	0.01	-97.7	98.00	1.5	-97.3	6,577.00	13.3	42.9	0.69	11,525.00	45.6	25,296.0	4,115.3	35.7	-18.3	-18.4	10.2
09/01	0.12	-50.0	1,887.00	30.8	-51.0	6,126.00	6.2	32.1	0.58	9,560.00	37.3	25,656.0	3,378.0	35.3	-35.0	-35.4	9.9
12/01	0.25	4.3	4,017.00	51.9	2.6	7,741.00	18.2	32.2	0.59	9,660.00	36.0	26,847.0	3,390.6	35.1	-35.0	-35.7	12.9
03/02	0.17	-22.7	2,776.00	38.3	-24.1	7,245.00	13.2	31.9	0.54	8,778.00	31.7	27,689.0	3,054.0	34.8	-40.9	-41.8	12.9
06/02	0.14	2,700.0	2,243.00	30.9	2,188.8	7,253.00	10.3	31.0	0.67	10,923.00	38.5	28,365.0	3,473.4	31.8	-2.9	-5.2	12.1
09/02	0.19	65.2	3,047.00	39.3	61.5	7,746.00	26.4	31.9	0.75	12,083.00	40.3	29,985.0	3,835.7	31.7	29.6	26.4	16.9
12/02	0.18	-26.5	2,806.00	32.9	-30.1	8,541.00	10.3	30.2	0.68	10,872.00	35.3	30,785.0	3,396.1	31.2	16.2	12.5	14.7
03/03	0.26	51.2	4,168.00	53.2	50.1	7,835.00	8.1	31.9	0.77	12,264.00	39.1	31,375.0	3,832.3	31.2	43.4	39.7	13.3
06/03	0.18	26.4	2,866.00	35.5	27.8	8,065.00	11.2	32.1	0.80	12,887.00	40.0	32,187.0	4,063.5	31.5	20.0	18.0	13.5
09/03	0.24	26.3	3,901.00	47.5	28.0	8,215.00	6.1	33.0	0.85	13,741.00	42.1	32,656.0	4,370.6	31.8	14.6	13.7	8.9
12/03	0.14	-22.2	2,312.00	22.8	-17.6	10,153.00	18.9	34.0	0.81	13,247.00	38.7	34,268.0	4,339.6	32.8	19.7	21.8	11.3
03/04	0.29	12.8	4,804.00	52.4	15.3	9,175.00	17.1	34.5	0.85	13,883.00	39.0	35,608.0	4,637.0	33.4	10.4	13.2	13.5
06/04	0.23	29.9	3,704.00	39.9	29.2	9,292.00	15.2	32.5	0.90	14,721.00	40.0	36,835.0	4,933.1	33.5	11.9	14.2	14.4
09/04	0.27	12.5	4,330.00	47.1	11.0	9,189.00	11.9	31.9	0.93	15,150.00	40.1	37,809.0	5,034.2	33.2	8.9	10.3	15.8
12/04	0.32	128.6	5,169.00	47.8	123.6	10,818.00	6.5	32.2	1.11	18,007.00	46.8	38,474.0	5,901.3	32.8	36.4	35.9	12.3
03/05	0.28	-3.4	4,593.00	47.7	-4.4	9,620.00	4.9	33.4	1.10	17,796.00	45.7	38,919.0	5,783.0	32.5	29.9	28.2	9.3
06/05	0.30	30.4	4,617.00	45.4	24.6	10,161.00	9.4	29.7	1.17	18,709.00	47.0	39,788.0	5,946.9	31.8	30.0	27.1	8.0
09/05	0.31	14.8	4,913.00	50.4	13.5	9,741.00	6.0	32.0	1.21	19,292.00	47.8	40,340.0	6,138.1	31.8	30.1	27.3	6.7
12/05	0.34	6.3	5,137.00	43.4	-0.6	11,837.00	9.4	29.6	1.23	19,260.00	46.6	41,359.0	6,003.6	31.2	10.8	7.0	7.5
03/06	0.32	14.3	4,712.00	43.2	2.6	10,900.00	13.3	29.3	1.27	19,379.00	45.4	42,639.0	5,842.4	30.1	15.5	8.9	9.6
06/06	0.31	3.3	4,609.00	39.0	-0.2	11,804.00	16.2	31.0	1.28	19,371.00	43.7	44,282.0	5,904.1	30.5	9.4	3.5	11.3
09/06	0.35	12.9	5,041.00	46.6	2.6	10,811.00	11.0	30.5	1.32	19,499.00	43.0	45,352.0	5,868.5	30.1	9.1	1.1	12.4
12/06	0.26	-23.5	3,805.00	30.3	-25.9	12,542.00	6.0	32.1	1.24	18,167.00	39.4	46,057.0	5,580.0	30.7	0.8	-5.7	11.4
03/07	0.50	56.3	6,971.00	48.4	47.9	14,398.00	32.1	29.3	1.42	20,426.00	41.2	49,555.0	6,273.5	30.7	11.8	5.4	16.2
06/07	0.31	0.0	4,284.00	32.0	-7.1	13,371.00	13.3	30.1	1.42	20,101.00	39.3	51,122.0	6,128.2	30.5	10.9	3.8	15.4
09/07	0.45	28.6	6,240.00	45.3	23.8	13,762.00	27.3	31.4	1.52	21,300.00	39.4	54,073.0	6,541.6	30.7	15.2	9.2	19.2
12/07	0.50	92.3	6,820.00	41.7	79.2	16,367.00	30.5	30.3	1.76	24,315.00	42.0	57,898.0	7,362.0	30.3	41.9	33.8	25.7
03/08	0.47	-6.0	6,227.00	43.1	-10.7	14,454.00	0.4	28.8	1.73	23,571.00	40.7	57,954.0	7,111.8	30.2	21.8	15.4	16.9
06/08	0.46	48.4	6,040.00	38.1	41.0	15,837.00	18.4	28.6	1.88	25,327.00	41.9	60,420.0	7,543.0	29.8	32.4	26.0	18.2
09/08	0.48	6.7	5,991.00	39.8	-4.0	15,061.00	9.4	26.4	1.91	25,078.00	40.6	61,719.0	7,157.2	28.5	25.7	17.7	14.1
12/08	0.47	-6.0	5,638.00	33.9	-17.3	16,629.00	1.6	25.7	1.88	23,896.00	38.6	61,981.0	6,542.7	27.4	6.8	-1.7	7.1
03/09	0.36	-23.4	4,340.00	31.8	-30.3	13,648.00	-5.6	26.1	1.77	22,009.00	36.0	61,175.0	5,877.6	26.7	2.3	-6.6	5.6
06/09	0.34	-26.1	4,182.00	31.9	-30.8	13,099.00	-17.3	27.4	1.65	20,151.00	34.5	58,437.0	5,323.5	26.4	-12.2	-20.4	-3.3

A B C D E F G H I J K L M N O P Q R S T

Quarterly Trend Graph

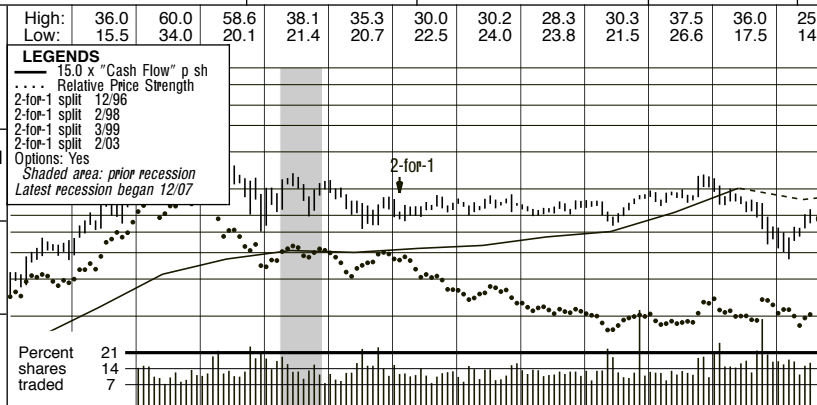
Company MICROSOFT CORPORATION (MSFT)



MICROSOFT NDQ-MSFT

RECENT PRICE **23.13** P/E RATIO **15.3** (Trailing: 14.3; Median: 27.0) RELATIVE P/E RATIO **0.92** DIV/D YLD **2.2%** VALUE LINE

TIMELINESS 3 Lowered 1/30/09
SAFETY 1 Raised 5/26/06
TECHNICAL 3 Raised 7/3/09
 BETA .80 (1.00 = Market)



Target Price Range	2012	2013	2014
	120	100	80
	64	48	32
	24	16	12
	8		

2012-14 PROJECTIONS
 Price Gain Ann'l Total Return
 High 50 (+115%) 23%
 Low 45 (+95%) 20%

Insider Decisions
 S O N D J F M A M
 to Buy 0 0 0 0 0 0 0 0 0
 Options 1 0 0 0 0 0 0 0 0
 to Sell 1 1 0 0 1 0 0 0 2

Institutional Decisions
 3Q2008 4Q2008 1Q2009
 to Buy 608 685 782
 to Sell 974 960 795
 Hds(s) 5251778525858785300450

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
.42	.50	.63	.92	1.18	1.47	1.93	2.25	2.39	2.65	3.00	3.39	3.72	4.40	5.45	6.60	6.55	6.75	Sales per sh ^A	9.80
.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.34	1.65	2.16	1.90	2.05	"Cash Flow" per sh	3.10
.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	1.70	Earnings per sh ^B	2.65
--	--	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.50	.58	Div's Decl'd per sh ^E	.80
.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.25	Cap'l Spending per sh	.35
.36	.48	.57	.73	1.02	1.58	2.69	4.05	4.48	4.87	5.69	6.89	4.49	3.99	3.32	3.97	4.45	5.15	Book Value per sh ^D	7.70
9024.0	9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908	8700	Common Shs Outst'g ^C	7500
26.8	21.4	28.2	29.1	33.0	42.8	49.8	53.1	35.3	32.4	26.1	25.8	22.9	21.7	19.9	16.3	18.8		Avg Ann'l P/E Ratio	18.0
1.58	1.40	1.89	1.82	1.90	2.23	2.84	3.45	1.81	1.77	1.49	1.36	1.22	1.17	1.06	1.01	1.15		Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	1.6%		Avg Ann'l Div'd Yield	1.7%

CAPITAL STRUCTURE as of 6/30/09
 Total Debt \$5746 mill. Due in 5 Yrs \$4000 mill.
 LT Debt \$3746 mill. LT Interest \$140 mill.
 Leases, Uncapitalized \$440.0 mill. (6/30/2008)

No defined benefit pension plan.

Pfd Stock None

Common Stock 8,908,000,000 shs.

Options Exercisable 4.0%
 MARKET CAP: \$205 billion (Large Cap)

19747	22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	58725	Sales (\$mill) ^A	73500
56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	39.5%	Operating Margin	40.0%
1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1440.0	2056.0	2562	2725	Depreciation (\$mill)	2775
7625.0	9421.0	10003	10384	10526	11330	12715	12599	14065	17681	14569	15215	Net Profit (\$mill)	20380
35.0%	34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	30.0%	25.8%	26.5%	25.5%	Income Tax Rate	25.5%
38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.3%	24.9%	25.9%	Net Profit Margin	27.7%
11515	20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	27000	Working Cap'l (\$mill)	31715
--	--	--	--	--	--	--	--	--	--	3746	3750	Long-Term Debt (\$mill)	3750
28438	41368	47289	52180	61020	74825	48115	40104	31097	36286	39558	44600	Shr. Equity (\$mill) ^D	57775
26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	34.0%	31.5%	Return on Total Cap'l	35.5%
26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	36.8%	34.0%	Return on Shr. Equity	35.5%
27.7%	22.7%	21.2%	19.9%	15.8%	12.8%	19.2%	22.6%	33.0%	37.7%	25.5%	23.0%	Retained to Com Eq	24.5%
--	--	--	--	8%	15%	27%	28%	27%	23%	31%	33%	All Div'ds to Net Prof	30%

CURRENT POSITION (SMILL.)

	2007	2008	6/30/09
Cash Assets	23411	23662	31447
Receivables	11338	13589	11192
Inventory (Avg Cst)	1127	985	717
Other	4292	5006	5924
Current Assets	40168	43242	49280
Accts Payable	3247	4034	3324
Debt Due	--	--	2000
Unearned Revenue	10799	13397	13003
Other	9708	12455	8707
Current Liab.	23754	29886	27034

ANNUAL RATES Past 10 Yrs. 5 Yrs. Est'd '06-'08

	Past 10 Yrs.	5 Yrs.	Est'd '06-'08
of change (per sh)			
Sales	16.5%	15.5%	10.0%
"Cash Flow"	15.0%	9.5%	10.5%
Earnings	16.5%	10.0%	10.0%
Dividends	--	--	12.5%
Book Value	13.0%	-5.5%	12.5%

BUSINESS: Microsoft Corp. is the largest independent maker of software. It develops and sells software products for a wide range of computing devices. Also sells the Xbox video game console. Revenue sources in fiscal 2008: Microsoft Business Division, 31.3% of total; Client, 27.9%; Server and Tools, 21.8%; Entertainment & Devices, 13.5%; Online Services, 5.3%; Other, .2%. Revenue and development: 13.5% of 2008 sales. 2008 depreciation rate: 16.4%. Has 91,000 employees. William H. Gates owns 8.8% of stock, other officers & directors 4.8% (9/08 proxy). Chairman: William H. Gates. CEO: Steven A. Ballmer. Incorporated: Washington. Address: One Microsoft Way, Redmond, Washington 98052-6399. Telephone: 425-882-8080. Internet: www.microsoft.com.

Broad economic trends will likely continue being a factor in Microsoft's performance. However, the sense is the first half of its fiscal year (ends June 30, 2010) will likely be more affected than the second. At this juncture, the recession appears to be nearing an end, with the general business environment starting to show some signs of stabilization. This suggests that while spending on information technology may remain constrained over the next six months, or so, corporate budgets may start to loosen in the first half of calendar 2010. Nonetheless, Revenue growth may well be modest for the year. As implied above, we do not see the September period differing much from the June quarter, given current trends in PC shipments and corporate and retail buyer spending patterns. *Windows 7* should be a benefit in the December period, though, since a good portion of the deferred revenue associated with the new operating system ought to be recognized. New server products and *Office 2010* should also make contributions, particularly in the second half, assuming economies in developed nations start to

move forward in this time frame. Cost control should work to support profitability. Microsoft will be making the required investments to extend its presence into the cloud computing environment. Accordingly, cost of goods sold seems set to rise this year, with an attendant narrowing in the company's gross margin. Meanwhile, close attention to operating expenses should minimize the effect of the higher investments on operating profits. A lower tax rate and a decline in other expenses ought bring a modest advance to net income and earnings. Microsoft shares are neutrally ranked for Timeliness. Investors clearly looked past the company's latest earnings report and focused on the software vendor's improving prospects, particularly in the second half. Moreover, the Yahoo!-Microsoft search deal seemed to be well received by MSFT shareholders. Still, the agreement needs regulatory approval, which will take time. At its current valuation, our projections suggest this issue should produce good long-term gains. Those with a shorter horizon may be less well served.

Fiscal Year Ends

	2006	2007	2008	2009	2010
QUARTERLY SALES (\$mill.) ^A					
Sep.30	9741	11837	10900	11804	44282
Dec.31	10811	12542	14398	13371	51122
Mar.31	13762	16367	14454	15837	60420
Jun.30	15061	16629	13648	13099	58437
	12500	17150	14400	14675	58725
EARNINGS PER SHARE ^{AB}					
Sep.30	.29	.34	.29	.28	1.20
Dec.31	.35	.26	.50	.31	1.42
Mar.31	.45	.50	.47	.46	1.87
Jun.30	.48	.47	.33	.34	1.62
	.33	.51	.43	.43	1.70
QUARTERLY DIVIDENDS PAID ^{EM}					
Mar.31	.08	.08	.08	.08	.32
Jun.30	.09	.09	.09	.10	.37
Sep.30	.10	.10	.10	.11	.41
Dec.31	.11	.11	.11	.13	.46
	.13	.13			

move forward in this time frame. Cost control should work to support profitability. Microsoft will be making the required investments to extend its presence into the cloud computing environment. Accordingly, cost of goods sold seems set to rise this year, with an attendant narrowing in the company's gross margin. Meanwhile, close attention to operating expenses should minimize the effect of the higher investments on operating profits. A lower tax rate and a decline in other expenses ought bring a modest advance to net income and earnings. Microsoft shares are neutrally ranked for Timeliness. Investors clearly looked past the company's latest earnings report and focused on the software vendor's improving prospects, particularly in the second half. Moreover, the Yahoo!-Microsoft search deal seemed to be well received by MSFT shareholders. Still, the agreement needs regulatory approval, which will take time. At its current valuation, our projections suggest this issue should produce good long-term gains. Those with a shorter horizon may be less well served.

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Charles Clark
 August 21, 2009

(A) Fiscal year ends June 30th. (B) Primary earnings through fiscal '97, then diluted. Quarters may not add to total. Excludes non-recurring losses: '98, 3c; '01, 23c; '02, 23c; '03, 5c; '04, 29c; '05, 4c; gain: '99, 1c; accounting charge, '01, 3c. Next earnings report due late Oct. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2008: \$14.1 billion, \$1.54 a share. (E) Dividends historically paid in March, June, Sept., and Dec. Dividend reinvestment plan available. Special dividend of \$3.00 a share paid December 2, 2004.	Company's Financial Strength	A++
	Stock's Price Stability	95
	Price Growth Persistence	5
	Earnings Predictability	90

Microsoft Corporation MSFT [Nasdaq]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★★	24.86	32.00	22.40	44.80	Medium	Wide	A	Application Software	Software

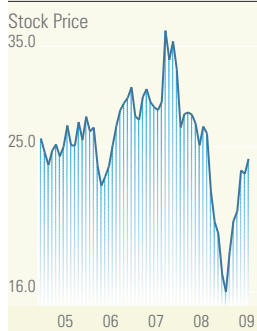
Per share prices in USD

Microsoft is challenged by the cloud computing model.

by Toan Tran
Equities Strategist
Analysts covering this company do not own its stock.

Pricing data through September 11, 2009.
Rating updated as of September 11, 2009.

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.



Thesis Aug. 10, 2009

The disruptive change brought about by cloud computing will challenge Microsoft's core Windows and Office franchises, but it will also present the firm with an opportunity to capture a larger share of enterprise IT spending.

Cloud computing is a singular threat to Microsoft because it allows users to access their information and applications from a multitude of hardware and software platforms. This strikes directly at the Windows platform, which is the foundation of Microsoft's moat. We have already seen early evidence of the cloud's effects in the consumer market, such as the resurgence of Apple's Macintosh and the growing popularity of lightweight instant-on operating systems for netbooks. While we expect Microsoft to earn substantial profits from Windows and Office for many years to come, the arrival of alternatives will begin to erode the company's desktop-based moat.

A cloud computing world does challenge Microsoft, but it also presents new opportunities. Microsoft is one of the few firms with the resources to build the massive datacenters that form the fabric of the cloud. In addition, Microsoft's existing ecosystem of third-party software developers is a valuable asset that helps get its Azure cloud computing platform off to a running start. If Microsoft can build Azure into a dominant cloud platform, a new avenue of growth will be opened as the company moves from a being a mere software vendor to a provider of the entire enterprise IT infrastructure. Cloud datacenters can reap massive scale economies in hardware and personnel costs, and this is value that Microsoft can extract for shareholders.

On the other hand, Microsoft has thus far been reluctant to fully embrace the software-as-a-service model that is enabled by cloud computing. Understandably, the firm

wants to protect the cash cows of Windows and Office, but this may prove to be a handicap against competitors unconstrained by the need to protect legacy assets. For example, Google Apps is currently priced at roughly half of Microsoft's hosted Exchange e-mail service.

While Microsoft is positioning itself for the cloud, over the next few years, its financial performance will be driven by a strong product cycle. Windows 7 will be released in time for the important holiday 2009 selling season. The end of mainstream technical support for Windows XP should help drive greater corporate adoption of Windows 7. Windows Server 2008 R2, which adds important virtualization technologies, and Office 2010, the next version of the popular productivity suite, are scheduled to follow in 2010.

Valuation

Our fair value estimate for Microsoft is \$32 per share. We have extended our explicit forecast for Microsoft out to 2019 to incorporate the decline of Windows and Office, as well as the growth of Windows Azure. We expect compound annual revenue growth of 2.4% over the next decade. Given the cloud disruption, Windows and Office will be empty shells by 2019 and contribute immaterial amounts to revenue by 2019. The vast majority of Microsoft's revenue will come from Azure, which we believe will be a very profitable business. The very high technical and financial barriers to entry to building a cloud, along with the massive returns to scale, point to an industry with a handful of very large players. While some cost savings will be shared with customers, we expect a significant portion of the economic profit to flow to the cloud providers.

Risk

The threat to Microsoft's core businesses of Windows and Office posed by cloud computing is the dominant risk. Google is a capable competitor that is intent on disrupting Microsoft's cash cows to restrict Microsoft's ability to disrupt Google's cash cow in Internet search. Regulatory

Microsoft Corporation MSFT [Nasdaq]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★★	24.86	32.00	22.40	44.80	Medium	Wide	A	Application Software	Software
Per share prices in USD									

Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Microsoft Corporation	USD	221,519	58,437	20,363	14,569
Apple, Inc.	USD	154,224	34,562	6,907	5,175
Google, Inc.	USD	149,466	22,274	7,265	4,580
Oracle Corporation	USD	114,465	23,252	8,321	5,593

Morningstar data as of September 11, 2009.

and antitrust issues are also an issue.

Bulls Say

- Microsoft is on the cusp of another strong product cycle with the release of Windows 7, Windows Server 2008 R2, and Office 2010.
- With a warchest of cash and an AAA debt rating, Microsoft is one of the few firms with the technical and financial resources to invest heavily in cloud computing.
- The Bing search engine is Microsoft's most viable effort in Internet search thus far, and its partnership with Yahoo gives both companies their best chance to chip away at Google's dominance.
- Windows Azure enjoys many inherited advantages such as Microsoft's existing base of third-party Windows developers.

Bears Say

- Cloud computing is a disruptive force and Microsoft may be handicapped from competing fully by the need to protect its legacy businesses.
- The growth of netbooks and emerging markets will pressure the selling prices of Windows. Piracy is also a larger problem in emerging markets.
- Although Microsoft has settled a majority of its antitrust issues, the firm will continue to operate under a regulatory microscope. Such regulatory oversight may make it difficult for Microsoft to raise prices or further its market share dominance.

- Although Microsoft has settled a majority of its antitrust issues, the firm will continue to operate under a regulatory microscope. Such regulatory oversight may make it difficult for Microsoft to raise prices or further its market share dominance.

Financial Overview

Growth: While its high-growth days are long gone, we think Microsoft can still post solid growth over the near term as the worldwide installed base of PCs and servers continues to expand. Over the long term, the race is to replace lost Windows and Office revenue with revenue from Windows Azure. Given the compelling economic and technical advantages of the cloud for enterprises, Azure could eventually be a larger business than Windows and Office combined.

Profitability: Microsoft is extremely profitable. Operating margins hover in the mid-30% range, and the firm generates more than \$1 billion in cash flow per month.

Financial Health: Even after buying back \$60 billion of stock over the past five years, Microsoft's fortresslike balance sheet still boasts \$36 billion of cash and long-term investments against only \$38 billion in total liabilities.

Company Overview

Profile: Microsoft develops the Windows operating system and the Office suite of productivity software. Windows and Office account for roughly 56% of Microsoft's revenue, with another 24% coming from software for enterprise servers. The firm's other businesses include the Xbox 360 video game console, Bing Internet search, business software, and software for mobile devices.

Strategy: Microsoft is working to remain a dominant

Microsoft Corporation MSFT [Nasdaq]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★★	24.86	32.00	22.40	44.80	Medium	Wide	A	Application Software	Software

Per share prices in USD

software company in the coming cloud computing world. With Windows Azure, the company seeks to build a cloud platform that enjoys a robust third-party developer ecosystem and provides a compelling alternative to internal datacenters for enterprises. The company is also working to extend its reach beyond the traditional desktop PC and server markets. The Xbox console system, Windows Mobile for portable devices, Windows Media Center, and the IPTV platform are examples of Microsoft's strategy to be at the core of the digital home. The firm also works to fortify its Windows and Office franchises by improving the performance, features, and security of its software with each new release.

Management: Chairman Bill Gates and CEO Steve Ballmer are two of the brightest minds in technology. Ray Ozzie, Microsoft's chief technical officer, will also play an important role in shaping the firm's strategy. As evidenced by the firm's continuing record of excellent returns on invested capital, management has done a superb job of transitioning Microsoft from a hypergrowth company to a mature technology giant. Although returns have declined in recent years as the firm has entered new markets outside Windows and Office, Microsoft still earned a very respectable 59% ROIC in fiscal 2009. Management also takes corporate governance seriously. Gates and Ballmer own about 10% and 4% of Microsoft, respectively, and neither has taken any stock options in the past decade. We think this level of ownership clearly aligns management's interests with those of outside shareholders. Executive compensation is below that of other large technology firms. In addition, the replacement of employee stock options with restricted-stock grants earns Microsoft a high Stewardship Grade.

Microsoft Corporation MSFT [Nasdaq]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★★	24.86	32.00	22.40	44.80	Medium	Wide	A	Application Software	Software

Per share prices in USD

Analyst Notes

Jul. 29, 2009

Microsoft, Yahoo Form Search Partnership

In a last-ditch attempt to compete with search juggernaut Google, Microsoft and Yahoo have announced a 10-year partnership to combine their search efforts. We believe the partnership is a positive for Microsoft, as it represents the best chance for the company to put a dent in Google's search dominance. We believe Yahoo will also benefit from the deal, as the firm will be able to reduce costs now that it

will not have to maintain its own search engine infrastructure. As a result of these anticipated savings, we may slightly increase our fair value estimate for Yahoo after examining the terms in more detail. Our fair value for Microsoft remains under review as we evaluate the company

Jul. 27, 2009

Microsoft under Review

Microsoft recently released pricing information for its Windows Azure cloud offering, and we are placing our fair value estimate under review to assess the potential of this business. We believe cloud computing offers enterprises compelling cost savings over internally managed data centers, and many workloads will move out to the cloud over the next few years. The cloud computing model is a

threat to Microsoft, but it also presents the company with a very large opportunity. Microsoft is one of the few companies with the financial and technical resources to build cloud data centers at the appropriate scale. In addition, the company's legion of third-party software developers, which can be migrated to the Azure platform, is a formidable advantage.

Jul. 23, 2009

Microsoft Reports Weak 4Q Results

Microsoft's weak fiscal fourth-quarter results are a reflection of very tepid global PC demand. Quarterly revenue declined 17% to \$13.1 billion, as Windows and Office sales fell by a combined \$1.7 billion. The shift toward netbooks continued to hamper Windows sales. Microsoft charges substantially less for its legacy Windows XP operating system that is used in the large majority of netbooks. For more detail on the impact of netbooks, please see our Stock Strategist article entitled "Netbooks: A Race to the Bottom?".

Microsoft made a half-hearted attempt at expense reduction, but operating income for the year still fell by nearly \$2 billion. Given the dismal global economy, fiscal 2009 was a difficult year for Microsoft. While we do not expect PC demand to rebound significantly for some time, Microsoft investors can look forward to the introduction of Windows 7 in October and Windows Server 2008 R2 in early 2010. The company also recently unveiled pricing for its Windows Azure cloud platform. The potential shift of enterprise IT spending to the cloud over the next decade is an enormous opportunity, and Microsoft is one of the best positioned companies to capitalize on this trend.

Apr. 23, 2009

Microsoft Reports a Weak 3Q

Microsoft reported weak third-quarter results, but investors

should start looking forward to the planned release of Windows 7 later this calendar year. Weak PC and server

Microsoft Corporation MSFT [Nasdaq]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★★	24.86	32.00	22.40	44.80	Medium	Wide	A	Application Software	Software

Per share prices in USD

Analyst Notes (continued)

demand pushed Microsoft's revenues down 6% year over year to \$13.6 billion. The biggest decline came in the Windows division where sales slumped 15.6% to \$3.4 billion. Office revenue also declined 4.8% to \$3.5 billion. A bright spot was the Server & Tools segment, which grew by 7% to \$3.5 billion. The company generated \$5.4 billion of free cash flow during the quarter and cash on the balance sheet now stands at \$25 billion.

Absent a quick turnaround in the global economy, which Microsoft does not expect, a turnaround in the Windows business will depend on Windows 7. With the recent end of mainstream enterprise support for Windows XP, we expect enterprises to adopt Windows 7 at a much greater rate than Vista. In addition, the beta versions of Windows 7 indicate a much faster and improved user experience for both consumers and enterprise customers. Although Microsoft has not committed to a firm ship date, we expect

Windows 7 to be released in time for the 2009 holiday season given the imminent public release of the release candidate version and Steven Sinofsky's (head of the Windows division) reputation for meeting deadlines. Microsoft will follow up Windows 7 with releases of Windows Server 2008 R2 and the next version of Office.

The netbook pricing head wind that we previously wrote about (see the Stock Strategist article "Netbooks: A Race to the Bottom?") affected Microsoft's quarter. Windows revenue was down 15.6% year over year despite PC units being down only 8%. The differential was partly driven by much lower Windows XP prices for netbooks, which accounted for 10% of PC shipments during the quarter. We expect the growing popularity of netbooks to continue to pressure Windows revenue.

Disclaimers & Disclosures

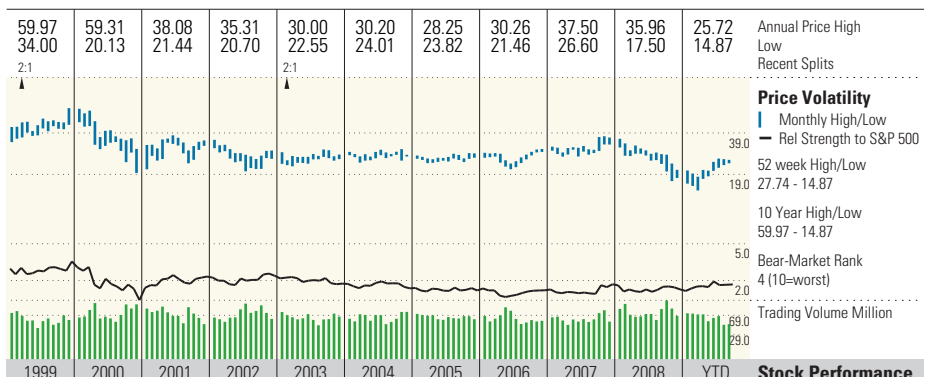
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Microsoft Corporation MSFT

Sales USD Mil 58,437 **Mkt Cap USD Mil** 221,519 **Industry** Application Software **Sector** Software

Microsoft develops the Windows operating system and the Office suite of productivity software. Windows and Office account for roughly 56% of Microsoft's revenue, with another 24% coming from software for enterprise servers. The firm's other businesses include the Xbox 360 video game console, Bing Internet search, business software, and software for mobile devices.

Morningstar Rating ★★★★★ **Last Price** 24.86 **Fair Value** 32.00 **Uncertainty** Medium **Economic Moat™** Wide **Stewardship Grade** A
per share prices in USD



One Microsoft Way
Redmond, WA 98052-6399
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Growth Rates Compound Annual					
Grade: B	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-3.3	9.7	9.7	11.5	
Operating Income %	-9.5	7.3	17.6	7.5	
Earnings/Share %	-13.4	10.5	16.6	8.6	
Dividends %	16.3	13.7	25.6	—	
Book Value/Share %	14.1	4.2	-8.5	4.9	
Stock Total Return %	-7.2	0.4	1.7	-4.2	
+/- Industry	-7.1	-2.9	-2.9	-2.5	
+/- Market	9.3	7.5	3.2	-1.7	

Profitability Analysis				
Grade: A	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	38.4	35.8	1.0	16.0
Return on Assets %	19.3	19.9	0.5	6.2
Fixed Asset Turns	8.5	13.4	9.0	6.8
Inventory Turns	14.3	11.0	30.5	11.9
Revenue/Employee USD K	628.4	646.5*	—	918.4
Gross Margin %	79.2	81.2	77.2	40.0
Operating Margin %	34.8	36.4	32.1	15.3
Net Margin %	24.9	28.2	0.8	7.2
Free Cash Flow/Rev %	27.2	31.4	28.5	0.0
R&D/Rev %	15.4	0.1	—	11.2

Financial Position		
Grade: A	06-08 USD Mil	06-09 USD Mil
Cash	10339	6076
Inventories	985	717
Receivables	13589	11192
Current Assets	43242	49280
Fixed Assets	6242	7535
Intangibles	14081	14262
Total Assets	72793	77888
Payables	9896	5733
Short-Term Debt	—	2000
Current Liabilities	29886	27034
Long-Term Debt	—	3746
Total Liabilities	36507	38330
Total Equity	36286	39558

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	15.3	21.4	18.2	18.5
Forward P/E	13.1	—	—	15.8
Price/Cash Flow	11.8	17.0	13.0	6.5
Price/Free Cash Flow	14.0	19.2	14.4	17.7
Dividend Yield %	2.1	—	1.1	2.3
Price/Book	5.6	7.0	4.8	2.1
Price/Sales	3.8	6.0	4.1	1.1
PEG Ratio	1.3	—	—	1.8

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
68.4	-62.9	52.8	-22.0	6.8	9.2	-0.9	15.6	20.6	-44.1	29.9	29.9	Total Return %
48.9	-52.8	65.8	1.4	-19.6	0.2	-3.9	2.0	17.1	-5.6	14.5	14.5	+/- Market
-21.1	-12.8	43.7	2.4	-12.9	1.6	0.1	-1.3	3.7	-6.5	-3.6	-3.6	+/- Industry
—	—	—	—	0.6	0.6	1.2	1.2	1.1	2.4	2.1	2.1	Dividend Yield %
600271	231295	356914	276631	295937	290720	278358	293538	333054	172930	221519	221519	Market Cap USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Financials
22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	58437	Revenue USD Mil
86.9	86.3	81.7	82.3	81.8	84.4	82.7	79.1	80.8	79.2	79.2	Gross Margin %
10937	11720	11910	13217	9034	14561	16472	18524	22492	20363	20363	Oper Income USD Mil
47.6	46.3	42.0	41.1	24.5	36.6	37.2	36.2	37.2	34.8	34.8	Operating Margin %
9421	7346	7829	9993	8168	12254	12599	14065	17681	14569	14569	Net Income USD Mil
0.85	0.66	0.71	0.92	0.75	1.12	1.20	1.42	1.87	1.62	1.62	Earnings Per Share USD
0.00	0.00	0.00	0.08	0.16	0.32	0.34	0.39	0.43	0.50	0.50	Dividends USD
11072	11148	11106	10882	10894	10906	10531	9886	9470	8996	8996	Shares Mil
3.36	4.35	4.79	5.22	6.41	4.34	4.15	3.73	3.68	3.88	4.44	Book Value Per Share USD
13961	13422	14509	15797	14626	16605	14404	17796	21612	19037	19037	Oper Cash Flow USD Mil
-879	-1103	-770	-891	-1109	-812	-1578	-2264	-3182	-3119	-3119	Cap Spending USD Mil
13082	12319	13739	14906	13517	15793	12826	15532	18430	15918	15918	Free Cash Flow USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Profitability
21.1	13.2	12.3	13.6	9.5	15.0	17.9	21.2	26.0	19.3	19.3	Return on Assets %
27.4	16.6	15.7	17.7	12.0	19.9	28.6	39.5	52.5	38.4	38.4	Return on Equity %
41.0	29.0	27.6	31.0	22.2	30.8	28.5	27.5	29.3	24.9	24.9	Net Margin %
0.51	0.45	0.45	0.44	0.43	0.49	0.63	0.77	0.89	0.78	0.78	Asset Turnover
1.3	1.3	1.3	1.3	1.2	1.5	1.7	2.0	2.0	2.0	2.0	Financial Leverage

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	06-09	Financial Health
20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	22246	Working Capital USD Mil
—	—	—	—	—	—	—	—	—	3746	3746	Long-Term Debt USD Mil
41368	47289	52180	61020	74825	48115	40104	31097	36286	39558	39558	Total Equity USD Mil
—	—	—	—	—	—	—	—	—	0.09	0.09	Debt/Equity

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
74.1	24.1	60.6	29.8	29.1	29.1	21.6	25.5	20.2	10.4	15.3	Price/Earnings
2.6	1.0	2.6	1.5	1.4	1.5	1.2	1.5	1.2	1.0	0.8	P/E vs. Market
29.8	10.1	13.7	9.2	8.7	7.6	6.9	6.7	5.9	2.9	3.8	Price/Sales
17.4	5.0	6.9	5.0	4.3	6.2	6.3	8.0	9.7	5.0	5.6	Price/Book
69.0	17.2	25.4	17.2	20.0	20.4	18.3	22.1	15.5	8.8	11.8	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	15061.0	16629.0	13648.0	13099.0		
Prior Year Period	13762.0	16367.0	14454.0	15837.0		
Rev Growth %	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	9.4	1.6	-5.6	-17.3		
Prior Year Period	27.3	30.5	0.4	18.4		
Earnings Per Share USD	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	0.48	0.47	0.33	0.34		
Prior Year Period	0.45	0.50	0.47	0.46		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Microsoft Corporatio	221519	58437	15.3	38.4
Apple, Inc.	154224	34562	30.1	22.7
Google, Inc.	149466	22274	40.5	15.9

Major Fund Holders			% of shares
American Funds Growth Fund of Amer A			1.94
American Funds Invmt Co of Amer A			0.92
Vanguard 500 Index Investor			0.82

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- ▶ Economic Moat™ Rating
- ▶ Discounted Cash Flow
- ▶ Discount Rate
- ▶ Fair Value
- ▶ Uncertainty
- ▶ Margin of Safety
- ▶ Consider Buying/Consider Selling
- ▶ Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based

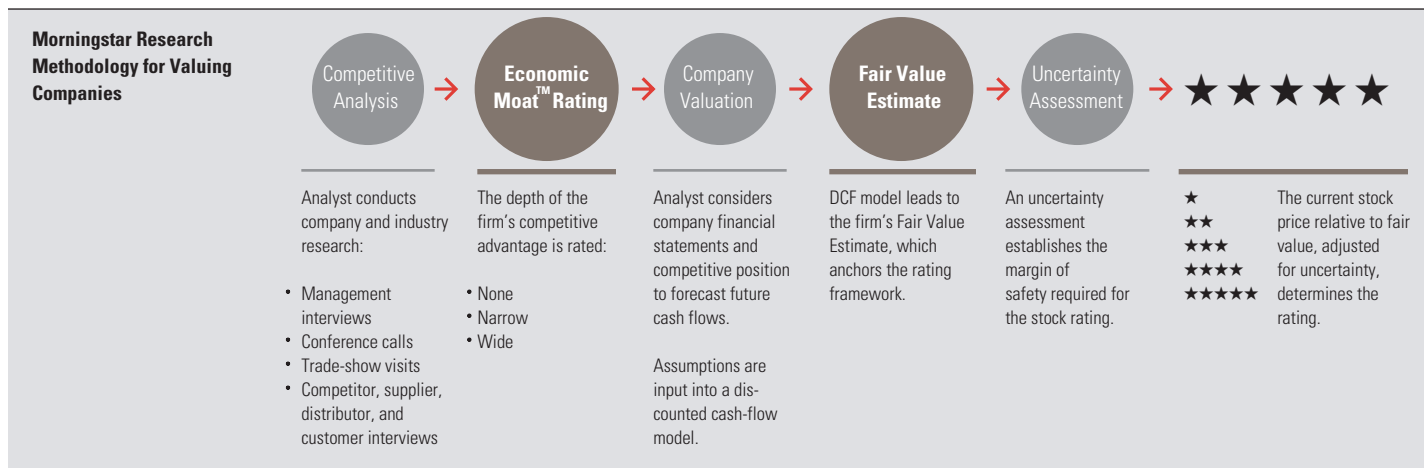
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$40 than they were at \$50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such



Morningstar's Approach to Rating Stocks (continued)

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High,

Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety



This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth. The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."

Company	Ticker	Industry	Quality	PAR
Microsoft	MSFT	Software (Systems)	86.3	20.0%
Current Price (09/11)			\$24.86	
CAPS Rating (Rate this stock on CAPS)			★★★★★	
Expected Income Statement				
Current Sales			55,876.0	
Sales Growth Forecast			11.0%	
Net Profit Margin			27.7%	
Projected Shares Outstanding			7,690.6	
EPS - Five Year Forecast			\$3.39	
Average P/E Ratio			17.0	
Projected Average Price			\$57.65	
Price Appreciation (Annualized)			18.3%	
Annual Dividend Yield			1.7%	
Projected Annual Return			20.0%	
Quality				
Financial Strength			96	24.0
EPS Stability			94	23.5
Industry Sales Growth Rate			6.5%	21.2
Industry Net Profit Margin			19.5%	17.8
Calculated Quality Rating			86.3	
Fool CAPS				
Total Players				
11414 Outperforms		1885 Underperforms		
				
All-Stars				
2572 Outperforms (92.1%)		222 Underperforms		
				
Fundamental Data Updated: 08/21/2009				