

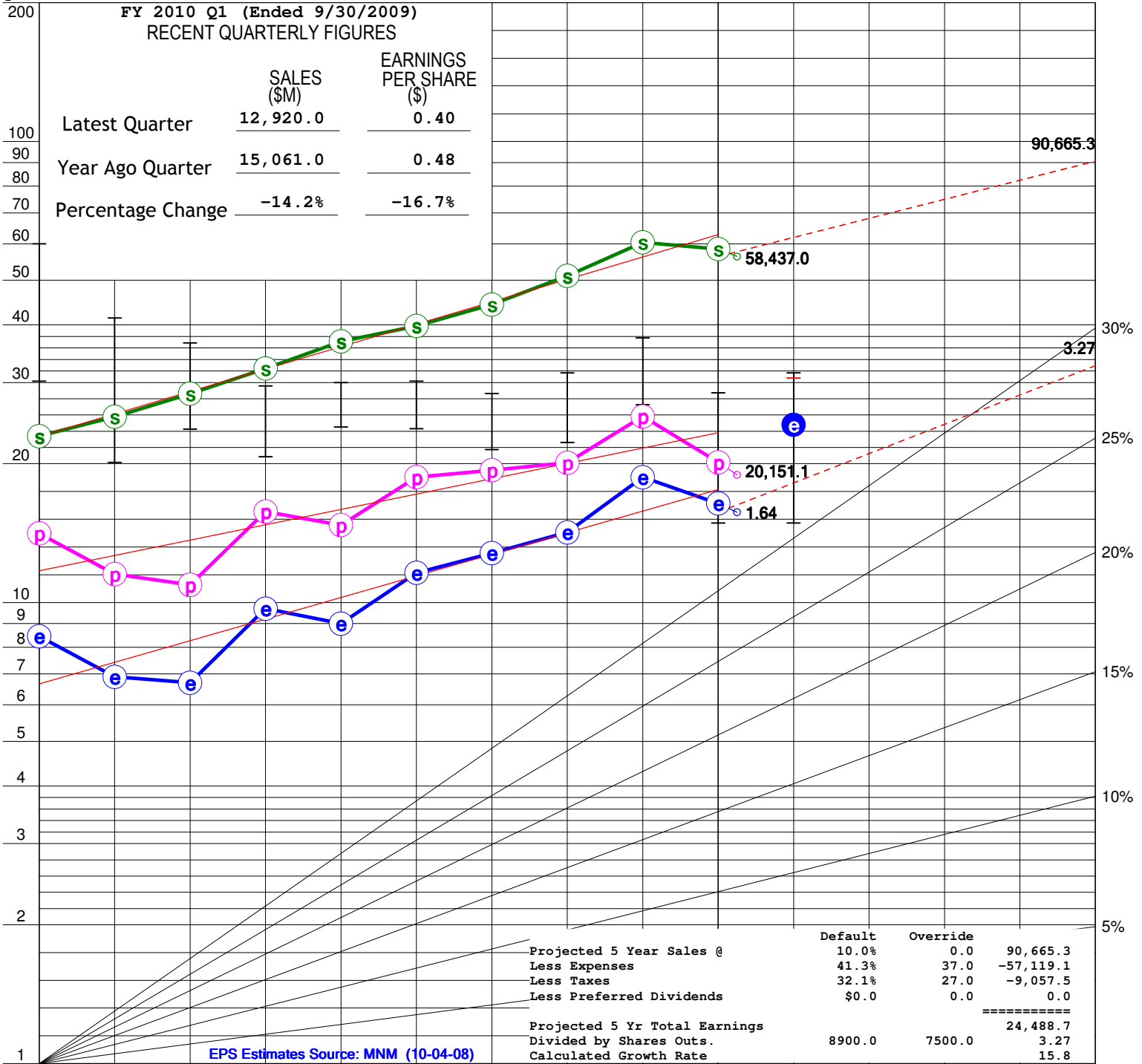


Stock Study

Company	MICROSOFT CORPORATION	Price Date	01/08/10
Study by	MG	Data Date	01/08/10
Sector	Information Technology	Data Source	NAIC Data
Industry	Systems Software	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	8,900.0	% Insiders	12.7
Debt(\$M)	5,996.0	% Institutions	64.4
% to Tot.Cap.	13.2	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	15.8 %	
(5) Sales Growth R^2	0.99	(6) Earnings Per Share Growth R^2	0.86	

2 QUALITY ANALYSIS

Company **MICROSOFT CORPORATION (MSFT)**

01/08/10

	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)	17.6	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 30.660 52-WEEK HIGH 31.500 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		16.9	TTM EPS		1.57
CURRENT P/E RATIO		19.5	PEG RATIO		1.1	FTM EPS		1.82
RELATIVE VALUE		105.4%	PROJ. RELATIVE VALUE		91.2%			

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 3.27 = Forecast High Price \$ 68.7

B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Avg. Low P/E ~~15.3~~ 15.0 X Estimated Low Earnings/Share ~~1.64~~ 1.57 = \$ 23.6

(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 = \$ 23.6

C PRICE RANGES

Forecast High Price 68.7 - Estimated Low Price 23.6 = Range 45.1 25% of Range = 11.3

BUY (Lower 25% of Range) = 23.6 to 34.9

MAYBE (Middle 50% of Range) = 34.9 to 57.4

SELL (Upper 25% of Range) = 57.4 to 68.7

Current Price 30.660 is in the Buy Range

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

(Forecast High Price 68.7 - Current Price 30.660) ÷ (Current Price 30.660 - Estimated Low Price 23.6) = 5.4 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend \$ 0.520 ÷ Current Price of Stock \$ 30.660 = 1.7 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

(Avg. EPS Next 5 Years 2.44 X Avg. % Payout 26.9) ÷ Current Price \$ 30.660 = 2.1 %

C % COMPOUND ANNUAL TOTAL RETURN

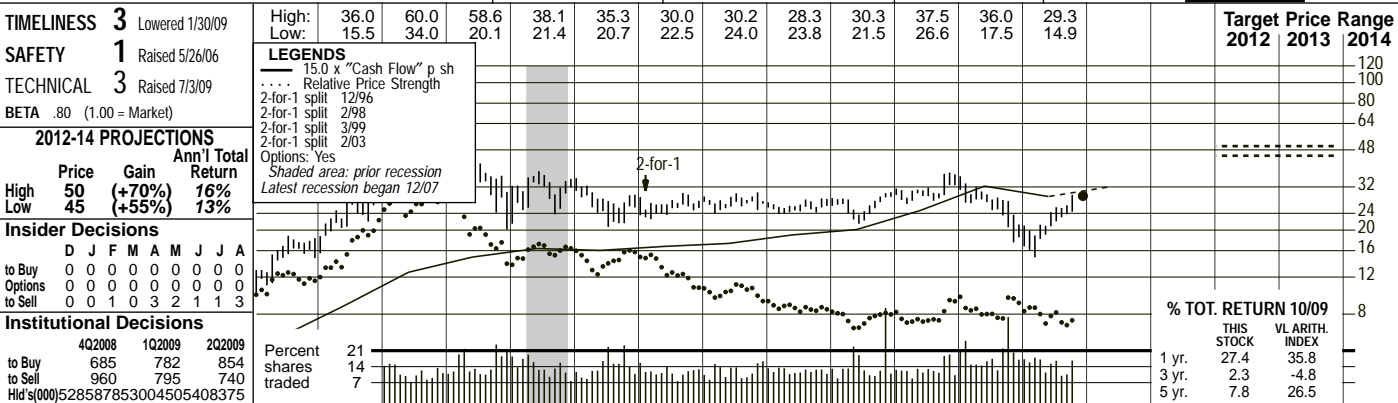
Average Yield 1.3 % + Annual Appreciation 17.5 % = Compound Annual Total Return 18.8 %

D % PROJECTED AVERAGE RETURN

Average Yield 1.5 % + Annual Appreciation 13.9 % = Projected Average Total Return 15.4 %

MICROSOFT NDQ-MSFT

RECENT PRICE **29.01** P/E RATIO **16.6** (Trailing: 18.8 Median: 24.0) RELATIVE P/E RATIO **0.97** DIV'D YLD **2.0%** VALUE LINE



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	6.56	6.90	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	1.92	2.15	"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	1.85	Earnings per sh ^B	2.65
--	--	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.52	.58	Div'ds 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	4.44	4.90	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	8908.0	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	13.4		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	.98	.95		Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%		Avg Ann'l Div'd Yield	1.7%

CAPITAL STRUCTURE as of 9/30/09		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Sales (\$mill) ^A		73500
Total Debt	\$5996 mill. Due in 5 Yrs \$4250 mill.	19747	22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	59850			Sales (\$mill) ^A	73500	
LT Debt	\$3746 mill. LT Interest \$140 mill.	56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	39.0%			Operating Margin	40.0%	
Leases, Uncapitalized	\$457.0 mill. (6/30/2009)	1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1440.0	2056.0	2562.0	2650			Depreciation (\$mill)	2775	
No defined benefit pension plan.		7625.0	9421.0	10003	10384	10526	11330	12715	12599	14065	17681	14569	16100			Net Profit (\$mill)	20380	
Pfd Stock None		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%	
Common Stock 8,879,121,378 shs. as of 10/19/09 (Options Exercisable 3.7%)		38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.3%	24.9%	26.9%			Net Profit Margin	27.7%	
MARKET CAP: \$258 billion (Large Cap)		11515	20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	25000			Working Cap'l (\$mill)	31715	
CURRENT POSITION (SMILL.)		--	--	--	--	--	--	--	--	--	--	3746.0	3750			Long-Term Debt (\$mill)	3750	
Cash Assets	23662	31447	36728										42750			Shr. Equity (\$mill) ^D	57775	
Receivables	13589	11192	8587													Return on Total Cap'l	35.5%	
Inventory (Avg Cst)	985	717	1150													Return on Shr. Equity	35.5%	
Other	5006	5924	5766													Retained to Com Eq	24.5%	
Current Assets	43242	49280	52231													All Div'ds to Net Prof	30%	
Accts Payable	4034	3324	3287															
Debt Due	--	2000	2250															
Unearned Revenue	13397	13003	12567															
Other	12455	8707	10657															
Current Liab.	29886	27034	28761															

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 2009: Microsoft Business, 32.4% of total; Windows & Windows Live, 25.5%; Server and Tools, 24.3%; Entertainment & Devices, 13.8%; Online Services, 3.7%; Other, .3%. Research and development: 15.4% of 2009 sales. Employed 93,000 at 6/30/09. William H. Gates owns 8.0% of stock, other officers & directors 4.8% (9/09 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.

An improved business environment should work to support Microsoft's performance. That is not to say that the software giant is not doing plenty to help itself. Indeed, the recent release of *Windows 7*, which shows signs of being a quite successful product, was a positive factor in the financial report issued for the September period. Moreover, new server products and *Office 2010* should also help the top line as we move through the next few quarters. Nonetheless, the short-term prospects of a company the size of Microsoft, with its deep market penetration, tend to be linked to the general economic climate and, specifically, to spending on personal computers and corporate information systems. In this regard, the market for personal computers at the consumer level appears to be somewhat more active than thought previously, and it seems that businesses may well embark on a replacement cycle in the back half of calendar 2010. Meanwhile, by most accounts, spending on corporate information systems has stabilized. In sum, we continue to look for modest revenue growth at Microsoft for fiscal 2010 (ends June, 2010).

We have made upward adjustments to our earnings estimates for the current fiscal year. First of all, we were a bit conservative relative to the impact of *Windows 7* on revenues, causing us to bump up our top-line call by 2%. More importantly, though, is the effectiveness with which Microsoft management has been able to reduce operating costs. The evidence produced with the September-period financials indicates that the company is quite leveraged to revenue expansion, suggesting that even a modest upturn in spending on software and information systems is likely to yield a much greater advance at the bottom line. Accordingly, we have raised our earnings estimate for fiscal 2010 to \$1.85 a share, up \$0.15. For now, though, we note that it remains an open question as to when spending patterns are to begin their advance.

Microsoft shares are neutrally ranked for Timeliness. Nonetheless, the market cheered the company's recent financial results and looked favorably on its near-term prospects. Investors with an intermediate time horizon may do well here.

Charles Clark November 20, 2009

Fiscal Year Ends	2006	2007	2008	2009	2010	Full Fiscal Year
Quarterly Sales (\$mill.) ^A	9741	11837	10900	11804	14282	44282
Earnings per share ^{AB}	.29	.34	.29	.28	1.20	1.20
Dividends paid ^E	.08	.08	.08	.08	.32	.32

(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, 3¢; '01, 23¢; '02, 23¢; '03, 5¢; '04, 29¢; '05, 4¢; gain: '99, 1¢; accounting charge, '01, 3¢. Next earnings report due late Jan. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2009: \$12.5 billion, \$1.40 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.

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Stock's Price Stability 90
Price Growth Persistence 15
Earnings Predictability 90

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