



Stock Selection Guide [®]

The most widely used aid to good investment judgment

Company MICROSOFT CORPORATION Date 01/05/06

Prepared by MG Data taken from NAIC Data

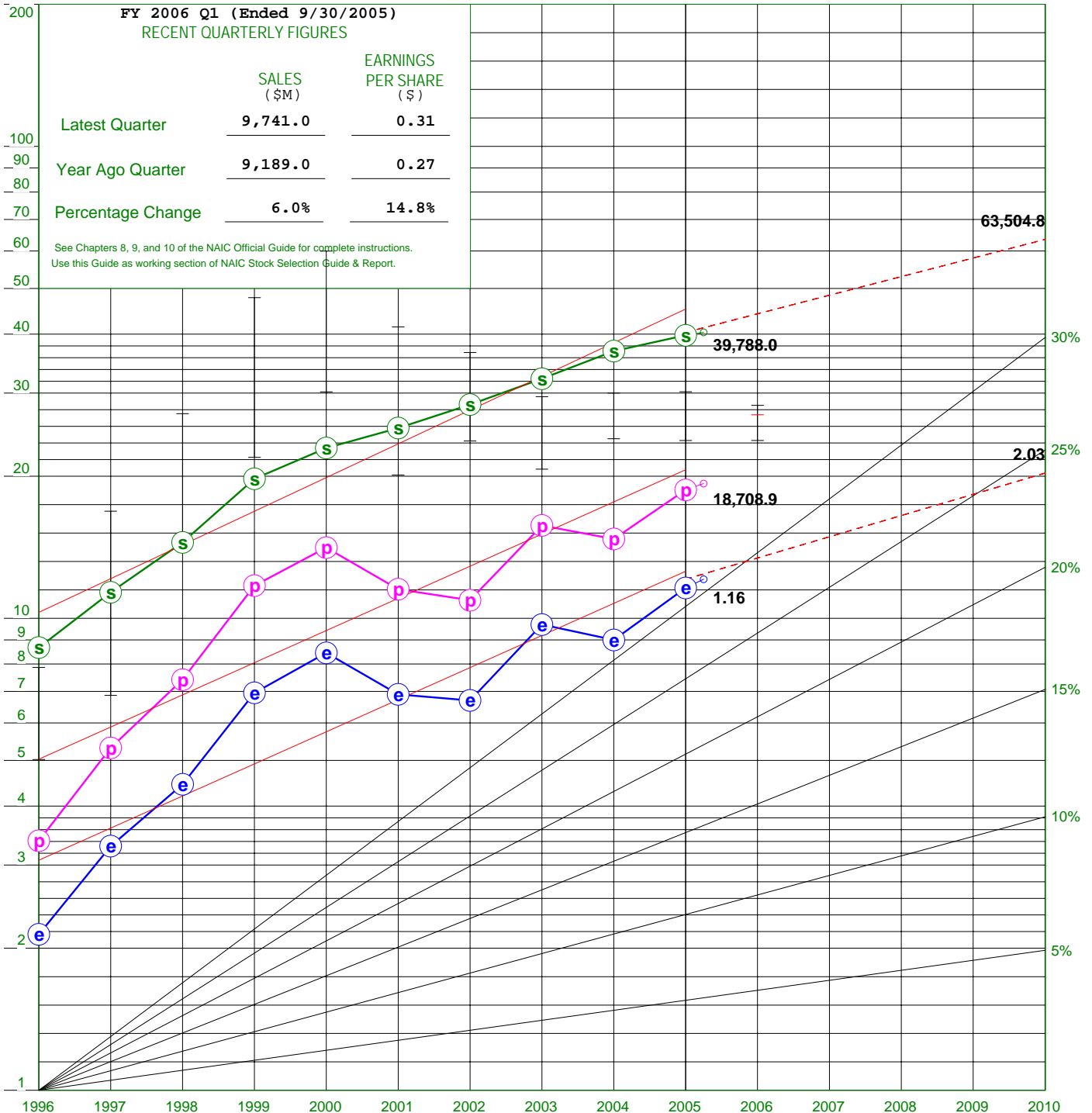
Where traded NASDAQ Major product/service Systems Sof

CAPITALIZATION --- Outstanding Amounts Reference

Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	10,645.0	16.8	52.7
Debt (\$M)	0.0	% to Tot.Cap.	0.0 % Potential Dil. None

1 VISUAL ANALYSIS of Sales, Earnings and Price

MSFT



- (1) Historical Sales Growth 17.9 %
- (2) Estimated Future Sales Growth 9.5 %
- (3) Historical Earnings Per Share Growth 17.0 %
- (4) Estimated Future Earnings Per Share Growth 10.9 %

2 EVALUATING MANAGEMENT

Company

MICROSOFT CORPORATION

(MSFT)

01/05/06

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	LAST 5 YEAR AVG.	TREND	
													UP	DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	39.0	46.8	51.2	59.4	61.5	45.6	38.5	48.9	40.0	47.0	44.0	UP	
B	% Earned on Equity (E/S ÷ Book Value)	27.1	32.4	28.1	25.9	21.6	15.7	13.8	17.1	13.1	25.8	17.1	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE		26.990		HIGH THIS YEAR		28.250		LOW THIS YEAR		23.820	
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		E	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100			
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C							
1	2001	41.4	20.1	0.69	60.0	29.1	0.000	0.0	0.0				
2	2002	36.6	23.8	0.67	54.6	35.5	0.000	0.0	0.0				
3	2003	29.5	20.7	0.97	30.4	21.3	0.080	8.2	0.4				
4	2004	30.0	24.0	0.90	33.3	26.7	0.160	17.8	0.7				
5	2005	30.2	23.8	1.16	26.0	20.5	3.320	286.2	13.9				
6	TOTAL		112.4		89.7	68.5		26.0					
7	AVERAGE		22.5		29.9	22.8		13.0					
8	AVERAGE PRICE EARNINGS RATIO				26.3		9	CURRENT PRICE EARNINGS RATIO				22.3	

4 PROJ. P/E [20.11] Based on Next 4 qtr. EPS [1.34]

Current P/E Based on Last 4 qtr. EPS [1.21] PEG=20.4

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E 29.9 X Estimate High Earnings/Share 2.03 = Forecast High Price \$ 60.7 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E 22.8 X Estimated Low Earnings/Share 1.16 = \$ 27.6 (3E7 as adj.)

(b) Avg. Low Price of Last 5 Years = 22.5 (3B7)

(c) Recent Severe Market Low Price = 23.8

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}} = \frac{0.320}{0.139} = 2.3$

Selected Estimate Low Price = \$ 22.5 (4B1)

C ZONING

60.7 (4A1) High Forecast Price Minus 22.5 (4B1) Low Forecast Price Equals 38.2 (C) Range. 1/3 of Range = 9.6 (4CD)

(4C2) Lower 1/3 = 22.5 (4B1) to 32.1 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 32.1 to 51.1 (Maybe)

(4C4) Upper 1/3 = 51.1 to 60.7 (4A1) (Sell)

Present Market Price of 26.990 is in the Buy (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 60.7 Minus Present Price 26.990

Present Price 26.990 Minus Low Price (4B1) 22.5 = $\frac{33.7}{4.5} = 7.5$ To 1 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 60.7 = (2.249) X 100 = (224.9) - 100 = 124.9 % Appreciation (4E)

Present Market Price 26.990

Relative Value: 84.8% Proj. Relative Value: 76.5%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.320
Present Price of Stock \$ 26.990 = $\frac{0.012}{1.2} \times 100 =$ 1.2 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years 1.65 X Avg. % Payout (3G7) 13.0 = 21.5 = 0.8 % (5B)

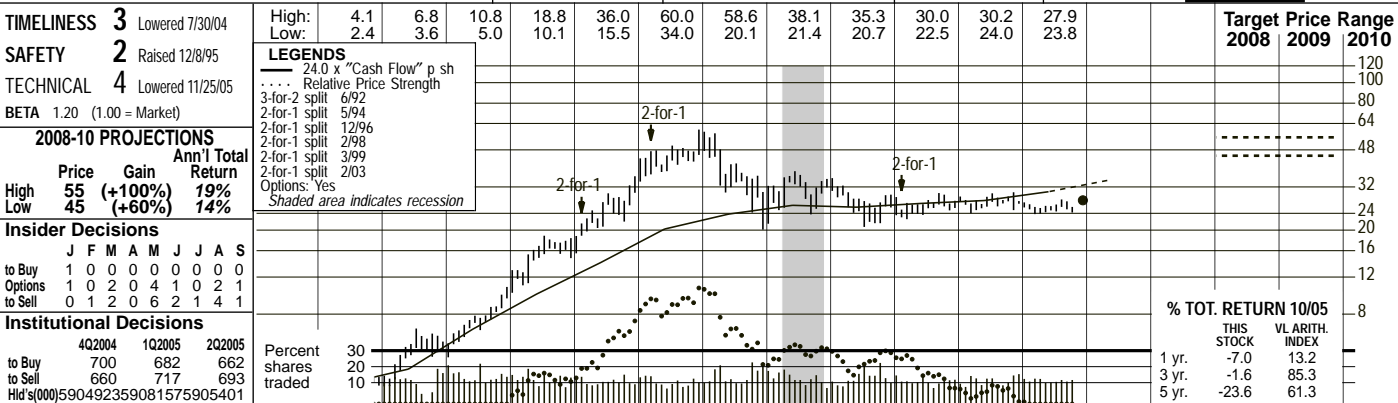
C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

	5 Year Appreciation Potential (4E)		P.A.R.	Tot. Ret.
	<u>124.9</u>	<u>25.0</u> %	<u>0.5%</u>	<u>0.4%</u>
Average Yield (5B)	<u>0.8</u> %		<u>14.7%</u>	<u>17.6%</u>
Average Total Annual Return Over the Next 5 Years (5C)	<u>25.8</u> %		<u>15.2%</u>	<u>18.0%</u>

MICROSOFT NDQ-MSFT

RECENT PRICE **27.74** P/E RATIO **21.8** (Trailing: 22.7; Median: 32.0) RELATIVE P/E RATIO **1.20** DIV'D YLD **1.2%**

VALUE LINE



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB, INC.	08-10
.10	.14	.22	.32	.42	.50	.63	.92	1.18	1.47	1.93	2.25	2.39	2.65	3.00	3.39	3.72	4.30	Sales per sh ^A	6.05
.02	.04	.06	.09	.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.45	"Cash Flow" per sh	2.20
.02	.03	.05	.08	.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.30	Earnings per sh ^B	2.00
--	--	--	--	--	--	--	--	--	--	--	--	--	--	.08	.16	.32	.40	Div'ds Decl'd per sh ^E	.70
.01	.02	.03	.04	.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.05	Cap'l Spending per sh	.05
.07	.11	.16	.25	.36	.48	.57	.73	1.02	1.58	2.69	4.05	4.48	4.87	5.69	6.89	4.49	4.90	Book Value per sh ^D	6.65
7860.4	8186.3	8363.2	8708.4	9024.0	9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10250	Common Shs Outst'g ^C	9600
17.8	19.9	22.6	28.5	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		Avg Ann'l P/E Ratio	25.0
1.35	1.48	1.44	1.73	1.58	1.40	1.89	1.82	1.90	2.23	2.84	3.45	1.81	1.77	1.49	1.36	1.20		Relative P/E Ratio	1.65
--	--	--	--	--	--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%		Avg Ann'l Div'd Yield	1.4%

CAPITAL STRUCTURE as of 9/30/05		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB, INC.		08-10	
Total Debt	None	38.9%	41.0%	50.1%	55.0%	56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	44.0%	44.0%	44.0%	44.0%	Sales (\$mill) ^A	58000	
Leases, Uncapitalized	\$230.0 mill.	269.0	480.0	557.0	1024.0	1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	935	1110	1110	935	Operating Margin	47.5%	
No defined benefit pension plan.		1453.0	2176.0	3454.0	4786.0	7625.0	9421.0	10003	10384	10526	11330	12715	13920	19970	19970	13920	Depreciation (\$mill)	1110	
Pfd Stock	None	32.9%	35.0%	35.0%	35.4%	35.0%	34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	31.0%	31.0%	31.0%	Net Profit (\$mill)	19970	
Common Stock	10,644,674,213 shs.	24.5%	25.1%	30.4%	33.0%	38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	31.6%	31.6%	31.6%	31.6%	Income Tax Rate	31.0%	
Options Exercisable	6.3%	4273.0	5414.0	6763.0	10159	11515	20553	28505	35832	44999	55597	31860	33945	47630	47630	33945	Net Profit Margin	34.4%	
MARKET CAP:	\$295 billion (Large Cap)	--	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Nil	Nil	Working Cap'l (\$mill)	47630	
CURRENT POSITION (SMILL.)		5333.0	6908.0	10777	16627	28438	41368	47289	52180	61020	74825	48115	50265	63840	63840	50265	Long-Term Debt (\$mill) ^D	Nil	
Cash Assets	60592	37751	40056															Shr. Equity (\$mill) ^D	63840
Receivables	5890	7180	5799															Return on Total Cap'l	31.5%
Inventory (Avg Cst)	421	491	726															Return on Shr. Equity	31.5%
Other	3663	3315	3250															Retained to Com Eq	20.5%
Current Assets	70566	48737	49831															All Div'ds to Net Prof	35%
Accts Payable	1717	2086	1852																
Debt Due	--	--	--																
Other	13252	14791	15170																
Current Liab.	14969	16877	17022																

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 2005: Client, 30.8% of total; Information Worker, 27.7%; Server, 24.8%; Home and Entertainment, 8.2%; MSN (Microsoft Network), 5.7%; Business Solutions, 2.0%; Mobile and Embedded, .8%. R & D: 15.5% of sales. 2005 depreciation rate: 13.4%. Has 61,000 employees; 149,675 stockholders of record. William H. Gates owns 9.6% of stock, other officers & directors 4.2% (9/05 proxy). Chairman: William H. Gates. CEO: Steven A. Ballmer. Inc.: WA. Address: One Microsoft Way, Redmond, WA 98052-6399. Tele.: 425-882-8080. Internet: www.microsoft.com.

Microsoft has a slew of new products coming down the pike ... This month, the software giant rolled out new versions of its database and its applications development product. That was followed in late November by the release of its revamped game console, *Xbox 360*. An update of the company's Web browser probably will be out in the first quarter of the new year. But they will all be preludes to the main event, the release of the newest version of the company's flagship operating system, *Windows Vista*. A first early testing version of *Vista* was released in the September quarter, and the final product is due in the second half of calendar 2006. Demand should be strong for the new OS, given its greater security and better ease of use. A new version of Microsoft's suite of applications, *Office 12*, should be out in the same timeframe. The company also plans to tap into the Internet advertising market with two new services, one aimed at individuals and one for small businesses, that will be supported mainly by advertising. ... **but they probably won't have a significant impact on the bottom line until fiscal 2007.** (Fiscal years end June 30th.) True, the *Xbox 360* should spur sales this holiday season, but the company loses money on the initial versions of the console, making its profits as the machine matures and on sales of games for the new system. What's more, costs related to the recently introduced new products, and expenses associated with the run-up to the launch of *Vista* and *Office 12*, will also pressure profit margins. But when the latter two products become available, sales and earnings should move higher. We tentatively estimate that share net in fiscal 2007 will rise nearly 20% from the \$1.30 we forecast for this fiscal year, to \$1.55, and that the company will post double-digit annual gains during the following two years as it continues to roll out new software and services. **Consequently, these shares probably will only be of interest to patient investors.** The strong earnings gains we project for the latter years of this decade should lead to above-average price appreciation over that span. The good-quality issue is only ranked to move with the market in the year ahead, though. *George A. Niemond November 25, 2005*

Fiscal Year Ends	2002	2003	2004	2005	2006	Full Fiscal Year
Quarterly Sales (\$mill.) ^A	6126	7741	7245	7253	28365	28365
Earnings per share ^{A, B}	.23	.26	.24	.21	.94	.94
Dividends per share ^E	.08	.08	.08	.08	.24	.24

(A) Fiscal year ends June 30th. (B) Primary earnings through fiscal '97, then diluted. Excludes nonrecurring 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 Jan. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2005: \$3.8 billion, 36c a share. (E) Next dividend payable in early Dec. ■ Dividend reinvestment plan available. Special dividend of \$3.00 a share paid December 2, 2004, to shareholders of record on November 17, 2004. **Company's Financial Strength** A++ **Stock's Price Stability** 55 **Price Growth Persistence** 35 **Earnings Predictability** 90 **To subscribe call 1-800-833-0046.**

PERT Worksheet-A Graph

Company MICROSOFT CORPORATION

(MSFT)

