



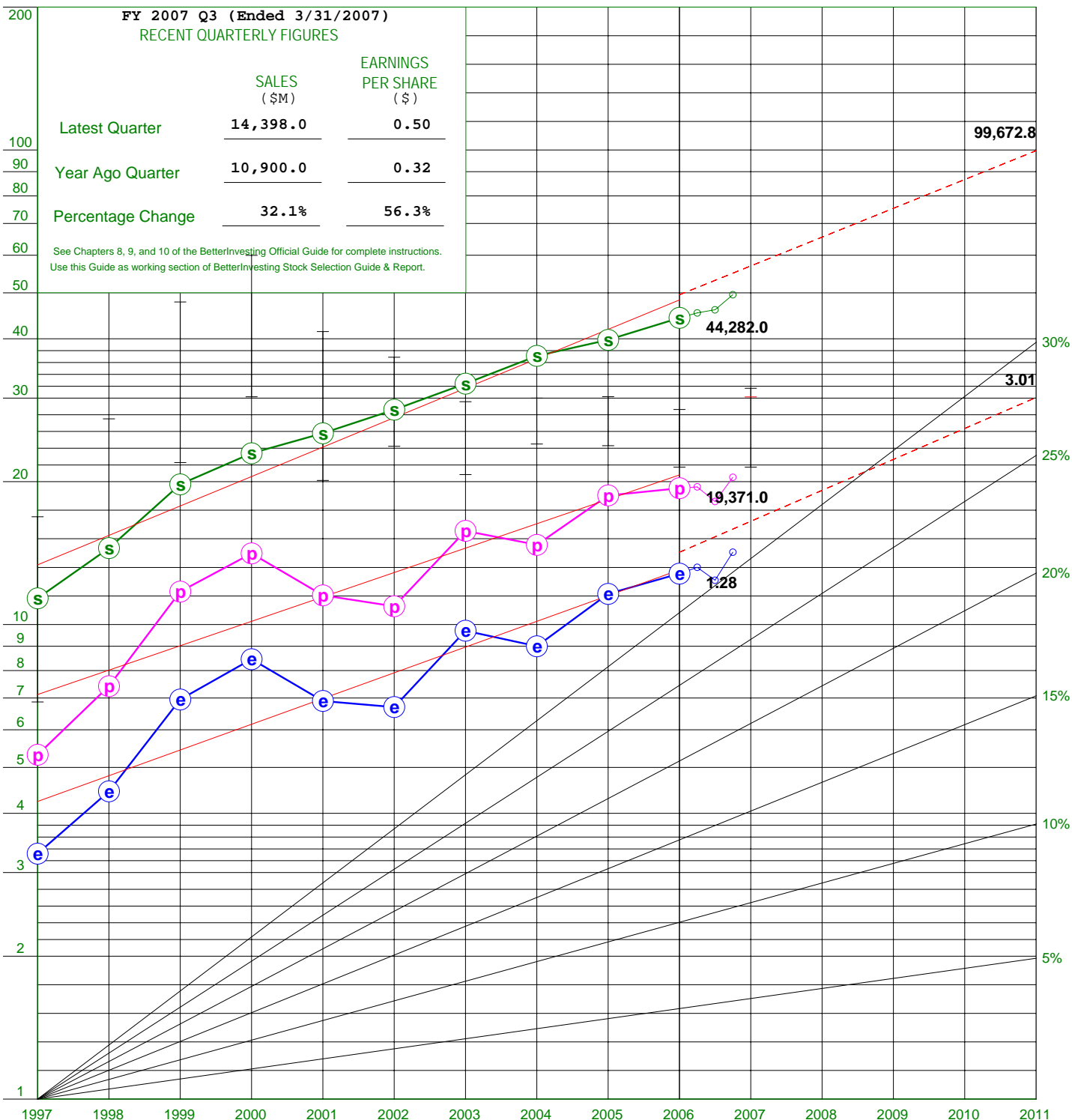
Stock Selection Guide[®]

The most widely used aid to good investment judgment

Company	MICROSOFT CORPORATION		Date	05/25/07	
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)	9,572.0	16.8	58.6		
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 15.4 %
- (2) Estimated Future Sales Growth 15.0 %
- (3) Historical Earnings Per Share Growth 13.3 %
- (4) Estimated Future Earnings Per Share Growth 16.2 %

2 EVALUATING MANAGEMENT

Company **MICROSOFT CORPORATION**

(MSFT)

05/25/07

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	46.8	51.2	59.4	61.5	45.6	38.5	48.9	40.0	47.0	43.7	43.6	EVEN	
B % Earned on Equity (E/S ÷ Book Value)	32.4	28.1	25.9	21.6	15.7	13.8	17.1	13.1	25.8	32.1	20.4	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 30.170 HIGH THIS YEAR 31.480 LOW THIS YEAR 21.460

Year	PRICE		C Earnings Per Share	D Price Earnings Ratio		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 2002	36.6	23.8	0.67	54.6	35.5	0.000	0.0	0.0	
2 2003	29.5	20.7	0.97	30.4	21.3	0.080	8.2	0.4	
3 2004	30.0	24.0	0.90	33.3	26.7	0.160	17.8	0.7	
4 2005	30.2	23.8	1.16	26.0	20.5	3.320	286.2	13.9	
5 2006	28.4	21.5	1.28	22.2	16.8	0.340	26.6	1.6	
6 TOTAL		113.8		111.9	120.8		52.6		
7 AVERAGE		22.8		28.0	24.2		17.5		
8 AVERAGE PRICE EARNINGS RATIO	26.1			9	CURRENT PRICE EARNINGS RATIO			21.2	

4 Proj. P/E [18.28] Based on Next 4 qtr. EPS [1.65] Current P/E Based on Last 4 qtr. EPS [1.42] EVALUATING RISK and REWARD over the next 5 years PEG=113

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 ~~28.0~~ 24.0 X Estimate High Earnings/Share 3.01 = Forecast High Price \$ 72.2
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~24.2~~ 20.0 X Estimated Low Earnings/Share 1.28 1.42 = \$ 28.4
(3E7 as adj.)
(b) Avg. Low Price of Last 5 Years = 22.8
(3B7)
(c) Recent Severe Market Low Price = 21.5

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}} = \frac{0.400}{0.139} = 2.9$
Selected Estimate Low Price = \$ 28.4
(4B1)

C ZONING

72.2 (4A1) High Forecast Price Minus 28.4 (4B1) Low Forecast Price Equals 43.8 (C) Range. 1/3 of Range = 10.9 (4CD)
(4C2) Lower 1/3 = 28.4 (4B1) to 39.3 (Buy) Note: Ranges changed to 25%/50%/25%
(4C3) Middle 1/3 = 39.3 to 61.3 (Maybe)
(4C4) Upper 1/3 = 61.3 to 72.2 (4A1) (Sell)

Present Market Price of 30.170 is in the Buy (4C5) Range

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

High Price (4A1) 72.2 Minus Present Price 30.170 = 42.0 = 23.7 To 1
Present Price 30.170 Minus Low Price (4B1) 28.4 = 1.8 (4D)

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

High Price (4A1) 72.2
Present Market Price 30.170 = (2.393) X 100 = (239.3) - 100 = 139.3 (4E) % Appreciation

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 \$ 0.400
Present Price of Stock \$ 30.170 = 0.013 X 100 = 1.3 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 2.23 X Avg. % Payout (3G7) 17.5 = 39.0 = 1.3 % (5B)
Present Price \$ 30.170

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) <u>139.3</u>		P.A.R.	Tot. Ret.
$\frac{5}{139.3}$	<u>27.9</u> %	Average Yield	<u>0.8%</u>
Average Yield (5B) <u>1.3</u> %		Annual Appreciation	<u>17.0%</u>
Average Total Annual Return Over the Next 5 Years (5C) <u>29.2</u> %		% Compd Ann Rate of Ret	<u>19.1%</u>
			<u>19.8%</u>

TIMELINESS 2 Raised 11/10/06	High: 10.8	18.8	36.0	60.0	58.6	38.1	35.3	30.0	30.2	28.3	30.3	31.5	Target Price Range 2010 2011 2012
SAFETY 1 Raised 5/26/06	Low: 5.0	10.1	15.5	34.0	20.1	21.4	20.7	22.5	24.0	23.8	21.5	26.6	
TECHNICAL 4 Lowered 5/11/07	LEGENDS 17.0 x "Cash Flow" p sh Relative Price Strength 2-for-1 split 5/94 2-for-1 split 12/96 2-for-1 split 2/98 2-for-1 split 3/99 2-for-1 split 2/03 Options: Yes Shaded area indicates recession												
BETA 1.00 (1.00 = Market)	2010-12 PROJECTIONS Ann'l Total Price Gain Return High 60 (+95%) 19% Low 50 (+60%) 14%												
Insider Decisions	J A S O N D J F M to Buy 0 0 0 0 0 0 0 0 0 0 Options 2 0 0 0 1 1 0 0 0 0 to Sell 3 3 0 0 5 1 0 2 0 0												
Institutional Decisions	202006 3Q2006 4Q2006 to Buy 672 611 735 to Sell 849 839 790 Hld's(000)557672754928055725913												
													% TOT. RETURN 4/07 THIS STOCK VL ARITH. INDEX 1 yr. 26.2 12.1 3 yr. 19.1 53.0 5 yr. 20.2 84.4

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
.22	.32	.42	.50	.63	.92	1.18	1.47	1.93	2.25	2.39	2.65	3.00	3.39	3.72	4.40	5.50	6.35	Sales per sh ^A	10.15
.06	.09	.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.12	1.15	1.27	1.34	1.90	2.10	2.10	"Cash Flow" per sh	3.35
.05	.08	.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.50	1.70	Earnings per sh ^B	2.65
--	--	--	--	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.45	.60	Div'ds Decl'd per sh ^E	.70
.03	.04	.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.20	.25	Cap'l Spending per sh	.35
.16	.25	.36	.48	.57	.73	1.02	1.58	2.69	4.05	4.48	4.87	5.69	6.89	4.49	3.99	4.60	5.05	Book Value per sh ^D	8.45
8363.2	8708.4	9024.0	9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9300	9000	Common Shs Outst'g ^C	7500
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	21.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
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	1.22	1.17			Relative P/E Ratio	1.40
--	--	--	--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%			Avg Ann'l Div'd Yield	1.3%

CAPITAL STRUCTURE as of 3/31/07										Sales (\$mill) ^A		76000											
Total Debt None										50.1%	55.0%	56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	40.5%	39.5%	Operating Margin	40.0%
Leases, Uncapitalized \$250.0 mill.										557.0	1024.0	1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1065	1285	Depreciation (\$mill)	2015
No defined benefit pension plan.										3454.0	4786.0	7625.0	9421.0	10003	10384	10526	11330	12715	12599	14580	15835	Net Profit (\$mill)	21170
Pfd Stock None										35.0%	35.4%	35.0%	34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	30.5%	30.5%	Income Tax Rate	30.5%
Common Stock 9,566,808,383 shs. as of 4/23/07										30.4%	33.0%	38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	28.5%	27.8%	Net Profit Margin	27.9%
Options Exercisable 7.0%										6763.0	10159	11515	20553	28505	35832	44999	55597	31860	26568	29705	32960	Working Cap'l (\$mill)	53045
MARKET CAP: \$296 billion (Large Cap)										--	--	--	--	--	--	--	--	--	--	Nil	Nil	Long-Term Debt (\$mill)	Nil
CURRENT POSITION (SMILL.)										10777	16627	28438	41368	47289	52180	61020	74825	48115	40104	42740	45465	Shr. Equity (\$mill) ^D	63220
Cash Assets										32.0%	28.8%	26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	34.0%	35.0%	Return on Total Cap'l	33.5%
Receivables										32.0%	28.8%	26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	34.0%	35.0%	Return on Shr. Equity	33.5%
Inventory (Avg Cst)										35.1%	30.4%	27.7%	22.7%	21.2%	19.9%	15.8%	12.8%	19.2%	22.6%	23.5%	22.5%	Retained to Com Eq	24.5%
Other										0%	1%	0%	0%	--	--	8%	15%	27%	28%	30%	35%	All Div'ds to Net Prof	26%
Current Assets																							
Accts Payable																							
Debt Due																							
Other																							
Current Liab.																							

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 2006: Client, 29.8% of total; Information Worker, 26.6%; Server, 25.9%; Home and Entertainment, 9.6%; MSN (Microsoft Network), 5.2%; Business Solutions, 2.1%; Mobile and Embedded, .8%. R & D: 14.9% of sales. 2006 depreciation rate: 12.5%. Has 71,000 employees. William H. Gates owns 9.7% of stock, other officers & directors 4.4% (9/06 proxy). Chairman: William H. Gates. CEO: Steven A. Ballmer. Inc.: WA. Address: One Microsoft Way, Redmond, WA 98052-6399. Telephone: 425-882-8080. Internet: www.microsoft.com.

ANNUAL RATES						Past		Est'd '04-'06	
of change (per sh)						10 Yrs.	5 Yrs.	to '10-'12	
Sales						19.0%	12.0%	17.5%	
"Cash Flow"						19.5%	5.0%	17.0%	
Earnings						21.5%	7.0%	15.0%	
Dividends						--	--	17.0%	
Book Value						24.0%	6.5%	8.5%	
Fiscal Year Ends		QUARTERLY SALES (\$mill.) ^A			Full Fiscal Year				
2004	2005	2006	2007	2008					
8215	9189	10815	11837	12500	36835				
9175	10818	12542	14398	15500	39788				
9292	10161	11804	13349	15000	44282				
51100	57000				51100				
					57000				
Fiscal Year Ends		EARNINGS PER SHARE ^{A B}			Full Fiscal Year				
2004	2005	2006	2007	2008					
.24	.23	.29	.35	.38	1.04				
.28	.32	.34	.45	.45	1.16				
.29	.28	.28	.28	.28	1.20				
.29	.28	.28	.28	.28	1.50				
.39	.39	.39	.39	.39	1.70				
.45	.45	.45	.45	.45					
Calendar		QUARTERLY DIVIDENDS PAID ^E			Full Year				
2003	2004	2005	2006	2007					
.08	--	--	.08	.09	.24				
--	--	.08	.08	.09	.16				
.08	.08	.08	.08	.09	.32				
.09	.09	.09	.09	.10	.37				
.10									

Will Microsoft buy Yahoo! Inc.? Earlier this month, there were reports that Microsoft and Yahoo! had talks concerning a tieup, including the possibility of Microsoft acquiring Yahoo! Inc. The discussions reportedly ended with no action taken. An acquisition of Yahoo! would solidify Microsoft's position in the search advertising market. However, given the need to pay a premium of perhaps 25% over Yahoo!'s market capitalization of roughly \$40 billion, a deal would likely be dilutive to GAAP earnings for two or three years. Moreover, retaining key Yahoo! personnel might be difficult. Thus, we think a deal between the two is unlikely.

Operations, meanwhile, are generally faring well. In the March quarter, revenues rose 32%, and earnings jumped over 70%. Those figures were inflated by \$1.7 billion and 12 cents of revenues and earnings, respectively, that were deferred from the December quarter as a result of the rollout of *Vista* and *Office 2007*. Still, even if those deferred revenues were excluded, the company posted an impressive 17% gain in sales, and share net advanced 31%. Demand was strong for the company's

server and tools offerings. But revenues at the entertainment and devices unit fell, primarily because of lower sales of the *Xbox 360* game console, and that segment continued to lose money, as did the online services business, where the company is investing for growth. Those investments, and a steady stream of new and upgraded products, should lead to continued good sales and earnings gains in the years ahead. Still, it won't all be smooth sailing. Google has a very strong position in the search field (a key area Microsoft is targeting for growth), and continues to roll out products, such as word processing programs and spreadsheets, that infringe on Microsoft's strongholds. Still, we think Microsoft will rise to the challenge and post good earnings gains through 2010-2012.

Top-quality Microsoft shares have a good deal of appeal. The issue is ranked to outpace the year-ahead market, and has above-average price appreciation potential for the haul to 2010-2012. The company's dispute with European regulators over allowing competitors access to certain technology adds risk, though.

George A. Niemond *May 25, 2007*

(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 July. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2006: \$4.4 billion, 44c a share. (E) Dividends historically paid in early March, June, Sept., and Dec. Dividend reinvestment plan available. A special dividend of \$3.00 a share was paid December 2, 2004.