



Stock Selection Guide®

The most widely used aid to good investment judgment

Company MICROSOFT CORPORATION Date 06/12/07

Prepared by MG Data taken from NAIC Data

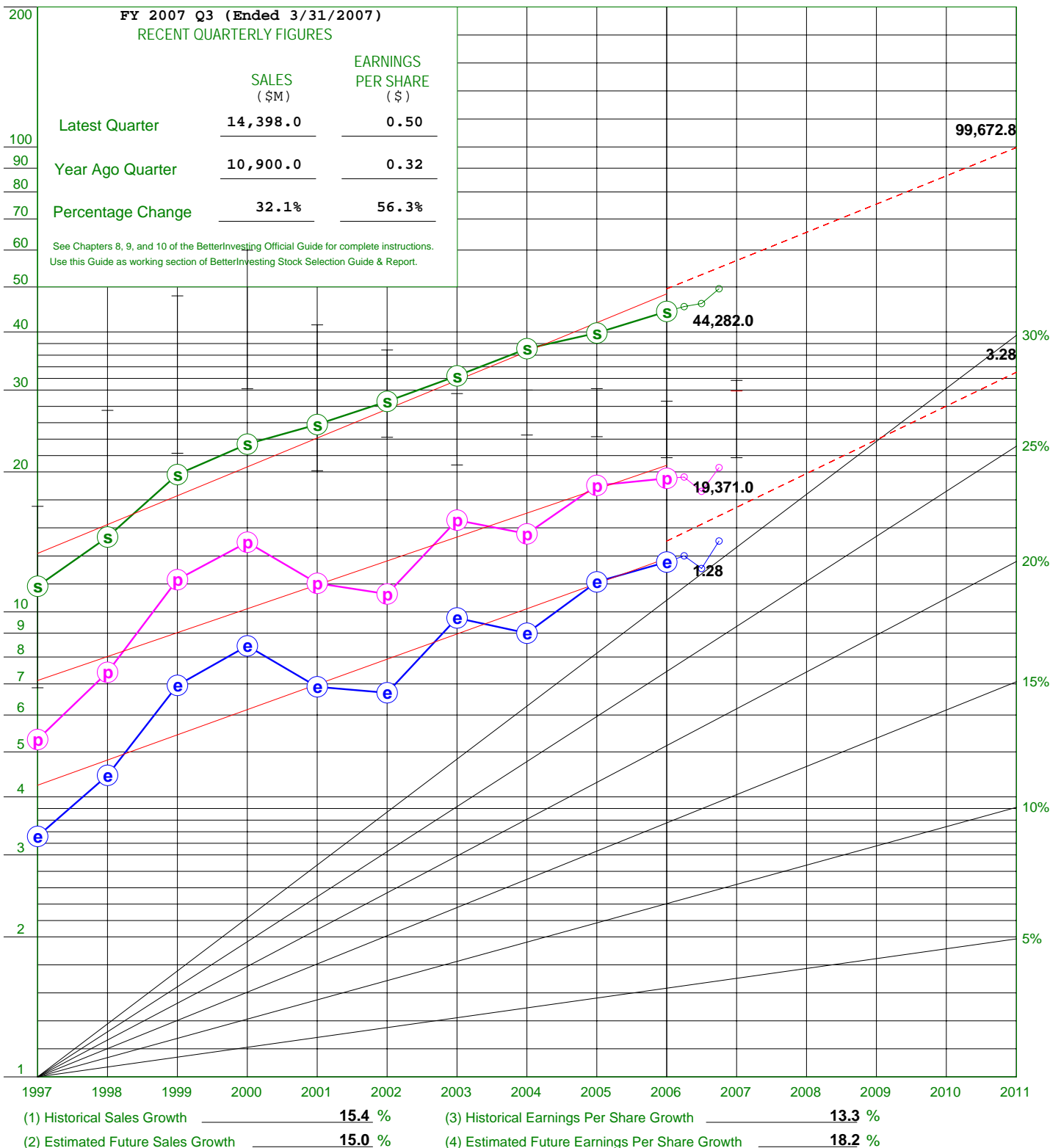
Where traded NASDAQ Major product/service Systems Sof

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



	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	

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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 29.850		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 21.0			

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Proj. P/E [17.79] Based on Next 4 qtr. EPS [1.68] Current P/E Based on Last 4 qtr. EPS [1.42] PEG=98

EVALUATING RISK and REWARD over the next 5 years

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 3.28 = Forecast High Price \$ 78.7
(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 Present Divd. = 0.400 = 2.9
High Yield (H) 0.139
Selected Estimate Low Price = \$ 28.4
(4B1)

C ZONING

78.7 High Forecast Price Minus 28.4 Low Forecast Price Equals 50.3 Range. 1/3 of Range = 12.6
(4A1) (4B1) (C) (4CD)
(4C2) Lower 1/3 = 28.4 to 41.0 (Buy) Note: Ranges changed to 25%/50%/25%
(4C3) Middle 1/3 = 41.0 to 66.1 (Maybe)
(4C4) Upper 1/3 = 66.1 to 78.7 (4A1) (Sell)

Present Market Price of 29.850 is in the Buy Range
(4C5)

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

High Price (4A1) 78.7 Minus Present Price 29.850
Present Price 29.850 Minus Low Price (4B1) 28.4 = 48.9 = 33.7 To 1
1.5 (4D)

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

High Price (4A1) 78.7
Present Market Price 29.850 = (2.637) X 100 = (263.7) - 100 = 163.7 % Appreciation
(4E)

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5-YEAR POTENTIAL

Relative Value: 80.5% Proj. Relative Value: 68.1%

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 \$ 29.850	=	0.013	X 100 =	1.3	Present Yield or % Returned on Purchase Price	(5A)	
B AVERAGE YIELD OVER NEXT 5 YEARS							
Avg. Earnings Per Share Next 5 Years 2.34	X Avg. % Payout	(3G7) 17.5	=	41.0	=	1.4	%
				Present Price \$ 29.850		(5B)	
C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS							
5 Year Appreciation Potential (4E) 163.7					P.A.R.	Tot. Ret.	
5		32.7	%	Average Yield	0.8%	0.7%	
Average Yield (5B) -----		1.4	%	Annual Appreciation	19.3%	21.4%	
Average Total Annual Return Over the Next 5 Years (5C)		34.1	%	% Compd Ann Rate of Ret	20.1%	22.1%	

MICROSOFT NDQ-MSFT			RECENT PRICE	30.90	P/E RATIO	20.2	(Trailing: 22.2 Median: 32.0)	RELATIVE P/E RATIO	1.04	DIV'D YLD	1.3%	VALUE LINE										
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							
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	2010 2011 2012							
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												120 100 80 64 48 32 24 20 16 12 8							
BETA	1.00	(1.00 = Market)	2010-12 PROJECTIONS Price Gain Ann'l Total High 60 (+95%) 19% Low 50 (+60%) 14%																			
Insider Decisions			Institutional Decisions												% 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							
CAPITAL STRUCTURE as of 3/31/07			1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008													© VALUE LINE PUB., INC. 10-12						
Total Debt None			.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
Leases, Uncapitalized \$250.0 mill.			.06	.09	.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.34	1.90	2.10	"Cash Flow" per sh	3.35
No defined benefit pension plan.			.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
Pfd Stock None			..	..	..	..	..	..	..	..	..	..	..	..	.08	.16	.32	.34	.45	.60	Div'ds Decl'd per sh ^E	.70
Common Stock 9,566,808,383 shs. as of 4/23/07			.03	.04	.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.20	.25	Cap'l Spending per sh	.35
Options Exercisable 7.0%			.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
MARKET CAP: \$296 billion (Large Cap)			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
CURRENT POSITION (\$MILL.)			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			Avg Ann'l P/E Ratio	21.0
Cash Assets			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
Receivables			..	..	..	..	..	..	..	..	..	..	..	..	.3%	.6%	1.2%	1.3%			Avg Ann'l Div'd Yield	1.3%
Inventory (Avg Cst)																						
Other																						
Current Assets																						
Accts Payable																						
Debt Due																						
Other																						
Current Liab.																						
ANNUAL RATES																						
of change (per sh)																						
Sales																						
"Cash Flow"																						
Earnings																						
Dividends																						
Book Value																						
Fiscal Year Ends																						
QUARTERLY SALES (\$mill.) ^A																						
2004																						
2005																						
2006																						
2007																						
2008																						
Fiscal Year Ends																						
EARNINGS PER SHARE ^{A B}																						
2004																						
2005																						
2006																						
2007																						
2008																						
Cal-endar																						
QUARTERLY DIVIDENDS PAID ^E																						
2003																						
2004																						
2005																						
2006																						
2007																						
2008																						

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.

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, 3¢; '01, 23¢; '02, 23¢; '03, 5¢; '04, 29¢; '05, 4¢; gain: '99, 1¢; accounting charge, '01, 3¢. Next earnings report due late July. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2006: \$4.4 billion, 44¢ 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.

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Company's Financial Strength A++
Stock's Price Stability 85
Price Growth Persistence 20
Earnings Predictability 100

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