

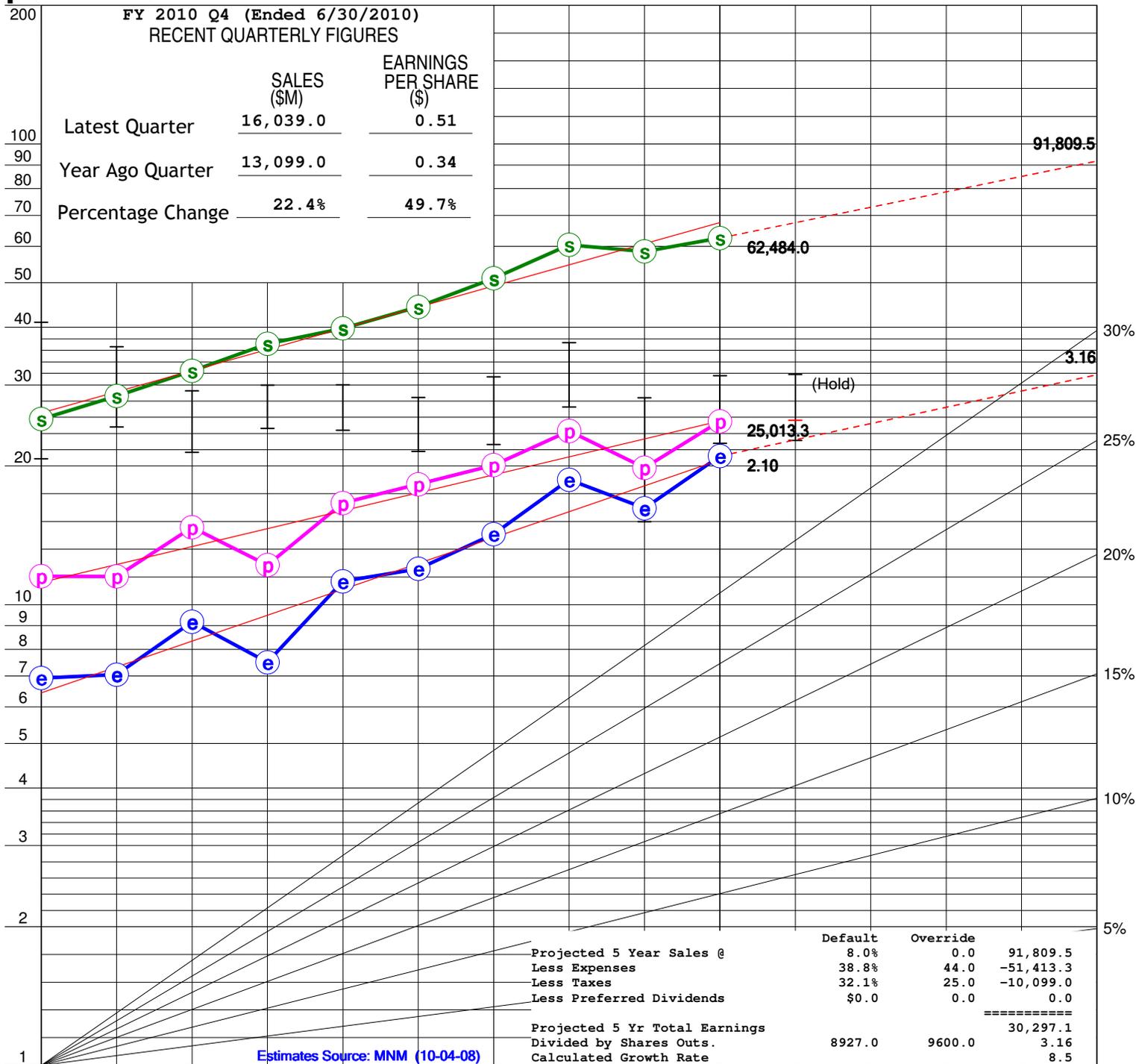


Stock Study

Company	MICROSOFT CORPORATION	Price Date	09/15/10
Study by	MG	Data Date	09/10/10
Sector	Technology	Data Source	StkCntrl1
Industry	Application Software	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	8,927.0	% Insiders	12.1
Debt(\$M)	5,939.0	% Institutions	65.9
% Debt to Tot.Cap.	11.1	Quality	2.1 (Take Stock)

1 Growth Analysis

NASDAQ: MSFT



(1) Historical Sales Growth	11.1 %	(3) Historical Earnings Per Share Growth	13.8 %	www.iclub.com
(2) Estimated Future Sales Growth	8.0 %	(4) Estimated Future Earnings Per Share Growth	8.5 %	
(5) Sales Growth R ²	0.98	(6) Earnings Per Share Growth R ²	0.92	

2 QUALITY ANALYSIS

Company **MICROSOFT CORPORATION (MSFT)**

09/15/10

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	5 YEAR AVG.	TREND UP / DOWN
A % Pre-tax Profit on Sales	45.6	40.6	45.7	33.1	41.8	41.2	39.3	39.4	33.9	40.0	38.8	UP
B % Return on Equity	15.8	14.5	16.2	10.9	25.0	30.0	42.9	47.0	36.5	39.4	39.1	EVEN
C % Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.4	10.4	4.0	UP

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE 25.115 52-WEEK HIGH 31.580 52-WEEK LOW 22.730

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2006	28.2	21.5	1.20	23.6	18.0	0.340	28.4	1.6
2 2007	31.2	22.3	1.42	21.9	15.7	0.390	27.4	1.7
3 2008	37.1	26.9	1.87	19.9	14.4	0.430	23.0	1.6
4 2009	28.1	15.2	1.62	17.4	9.4	0.500	30.9	3.3
5 2010	31.4	22.4	2.10	14.9	10.7	0.520	24.8	2.3
6 AVERAGE		21.7		19.5	13.6		26.9	
AVERAGE P/E RATIO	16.6	PROJECTED P/E RATIO		11.0	TTM EPS		2.10	
CURRENT P/E RATIO	12.0	PEG RATIO		1.3	FTM EPS		2.28	
RELATIVE VALUE	72.3%	PROJ. RELATIVE VALUE		66.4%				

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS – NEXT 5 YEARS

Selected High P/E ~~19.5~~ 16.0 X Estimated High Earnings/Share 3.16 = Forecast High Price \$ 50.6

B FUTURE LOW PRICE ANALYSIS – NEXT 5 YEARS

(a) Sel. Low P/E ~~13.6~~ 12.0 X Estimated Low Earnings/Share 2.10 = \$ 25.2

(b) Average 5-Year Low Price = 21.7

(c) Recent Severe Low Price = 15.2

(d) Price Dividend Will Support = Present Divd. + High Yield = 0.520 + 0.033 = 15.8

Selected Estimated Low Price = \$ 15.2

C PRICE RANGES

Forecast High Price 50.6 - Estimated Low Price 15.2 = Range 35.5 25% of Range = 8.9

BUY (Lower 25% of Range) = 15.2 to 24.1

MAYBE (Middle 50% of Range) = 24.1 to 41.7

SELL (Upper 25% of Range) = 41.7 to 50.6

Current Price 25.115 is in the Hold Range

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

(Forecast High Price 50.6 - Current Price 25.115) + (Current Price 25.115 - Estimated Low Price 15.2) = 2.6 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend \$ 0.520 ÷ Current Price of Stock \$ 25.115 = 2.1 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

(Avg. EPS Next 5 Years 2.68 X Avg. % Payout 26.9) ÷ Current Price \$ 25.115 = 2.9 %

C % COMPOUND ANNUAL TOTAL RETURN

Average Yield 1.7 % + Annual Appreciation 15.0 % = Compound Annual Total Return 16.7 %

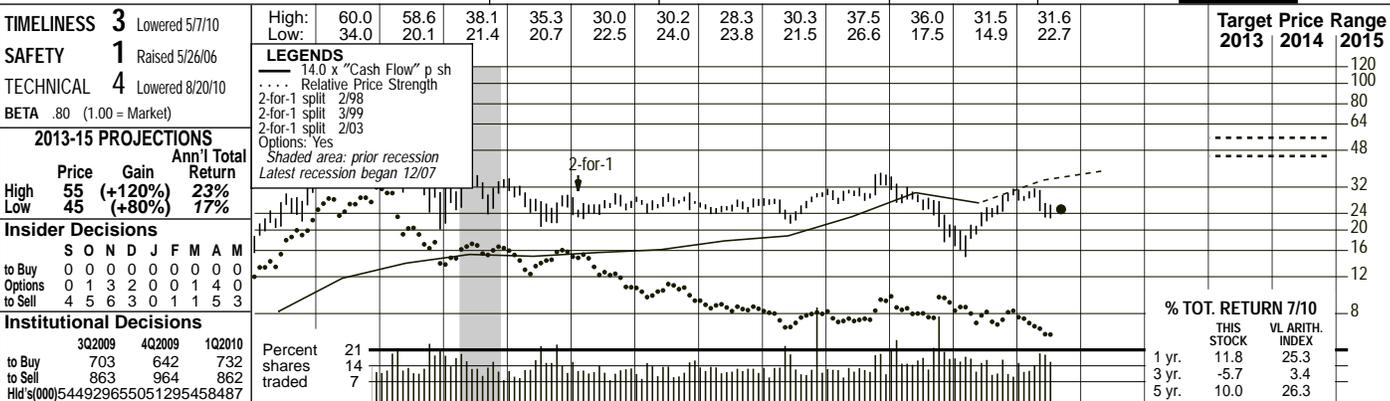
D % PROJECTED AVERAGE RETURN

Average Yield 1.9 % + Annual Appreciation 12.0 % = Projected Average Total Return 13.9 %

MICROSOFT NDQ-MSFT

RECENT PRICE **25.07** P/E RATIO **11.3** (Trailing: 11.9; Median: 24.0) RELATIVE P/E RATIO **0.72** DIV'D YLD **2.1%**

VALUE LINE



1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
.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	7.21	7.95	Sales per sh ^A	10.15
.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	2.47	2.75	"Cash Flow" per sh	3.70
.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	2.10	2.40	Earnings per sh ^B	3.35
--	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.52	.52	.56	Div'ds Decl'd per sh ^E	.70
.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.25	Cap'l Spending per sh	.25
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	5.33	6.85	Book Value per sh ^D	10.75
9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908.0	8668.0	8500	Common Shs Outst'g ^C	7900
21.4	28.2	29.1	33.0	42.8	49.8	NMF	35.3	32.4	26.1	25.8	22.9	21.7	19.9	16.3	13.4	13.1		Avg Ann'l P/E Ratio	15.0
1.40	1.89	1.82	1.90	2.23	2.84	NMF	1.81	1.77	1.49	1.36	1.22	1.17	1.06	.98	.88	.87		Relative P/E Ratio	1.00
--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%	1.9%		Avg Ann'l Div'd Yield	1.4%

CAPITAL STRUCTURE as of 6/30/10		22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	62484	67675	Sales (\$mill) ^A	80000				
Total Debt \$5939 mill.	Due in 5 Yrs \$4250 mill.	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	42.8%	43.0%	Operating Margin	43.0%				
LT Debt \$4939 mill.	LT Interest \$140 mill.	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1440.0	2056.0	2562.0	2673	2700	Depreciation (\$mill)	2800				
(9% of Cap'l)		9421.0	10003	10384	10526	11330	12715	12599	14065	17681	14569	18760	20750	Net Profit (\$mill)	26500				
Leases, Uncapitalized \$457.0 mill. (6/30/2009)		34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	30.0%	25.8%	26.5%	25.0%	25.0%	Income Tax Rate	25.0%				
No defined benefit pension plan.		41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.3%	24.9%	30.0%	30.7%	Net Profit Margin	33.1%				
Pfd Stock None		20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	29529	35000	Working Cap'l (\$mill)	40000				
Common Stock 8,653,567,331 shs.	as of 7/20/10	--	--	--	--	--	--	--	--	--	3746.0	4939	4950	Long-Term Debt (\$mill)	3750				
MARKET CAP: \$217 billion (Large Cap)		41368	47289	52180	61020	74825	48115	40104	31097	36286	39558	46175	58150	Shr. Equity (\$mill) ^D	85000				
CURRENT POSITION	2008 2009 6/30/10	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	33.6%	37.0%	33.0%	Return on Total Cap'l	30.0%				
(SMILL.)		22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	36.8%	40.6%	35.5%	Return on Shr. Equity	31.0%				
Cash Assets	23662 31447 36788	--	--	--	8%	15%	27%	28%	27%	23%	31%	24%	27.5%	Retained to Com Eq	24.5%				
Receivables	13589 11192 13014													All Div'ds to Net Prof	21%				
Inventory (Avg Cst)	985 717 740																		
Other	5006 5924 5134																		
Current Assets	43242 49280 55676																		
Accts Payable	4034 3324 4025																		
Debt Due	-- 2000 1000																		
Unearned Revenue	13397 13003 13652																		
Other	12455 8707 7470																		
Current Liab.	29886 27034 26147																		

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 2010: Microsoft Business, 29.8% of total; Windows & Windows Live, 29.6%; Server and Tools, 23.8%; Entertainment & Devices, 12.9%; Online Services, 3.5%; Other, 4%. Research and development: 13.9% of 2010 sales. Employed 89,000 at 6/30/10. 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.

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09	of change (per sh)
Sales	15.0%	15.5%	8.5%	
"Cash Flow"	12.0%	11.5%	11.5%	
Earnings	13.0%	11.0%	12.5%	
Dividends	--	41.5%	7.5%	
Book Value	8.5%	-7.5%	18.5%	

Fiscal Year Ends	QUARTERLY SALES (\$mill.) ^A	Full Fiscal Year
	Sep.30 Dec.31 Mar.31 Jun.30	
2007	10811 12542 14398 13371	51122
2008	13762 16367 14454 15837	60420
2009	15061 16629 13648 13099	58437
2010	12920 19022 14503 16039	62484
2011	15600 19000 16325 16750	67675

Fiscal Year Ends	EARNINGS PER SHARE ^{AB}	Full Fiscal Year
	Sep.30 Dec.31 Mar.31 Jun.30	
2007	.35 .26 .50 .31	1.42
2008	.45 .50 .47 .45	1.87
2009	.48 .47 .33 .34	1.62
2010	.40 .74 .45 .51	2.10
2011	.55 .71 .56 .58	2.40

Cal-endar	QUARTERLY DIVIDENDS PAID ^E	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2006	.09 .09 .09 .10	.37
2007	.10 .10 .10 .11	.41
2008	.11 .11 .11 .13	.46
2009	.13 .13 .13 .13	.52
2010	.13 .13	

Windows 7 should continue playing a major role at Microsoft in fiscal 2011 (ends June 30, 2011). Demand for the software giant's latest operating system is quite good, reflecting its capabilities and the current PC upgrade cycle. Businesses are increasingly embracing Windows 7, as they replace outdated hardware and take advantage of the new systems' functionality. Accordingly, there is probably at least another year in the current PC/hardware upgrade cycle, suggesting the revenue from the Windows & Windows Live division should continue progressing nicely for next 12 months.

Office 2010 also seems set to be a positive factor this year. The new productivity suite got off to a great start, and the momentum will likely remain throughout fiscal 2011. The demand for the Office products is less correlated with the PC upgrade cycle and more with the number of users within an organization. Nonetheless, the company's large position in the productivity suite market, combined with the initial rate of adoption, suggests a good year for the Microsoft Business Division.

Meanwhile, business activity should pick up in the Server and Tools group. New server and tools products (new versions) should be a factor here, as should Windows Azure and the company's overall cloud services offerings. And, assuming personal consumption rates remain relatively steady, there should be a better market for on-line advertising, which ought to bolster revenue at the Online Services Division. Finally, Xbox remains a popular game console, and Microsoft is intent on pursuing a range of opportunities in the mobile device market, likely providing a further degree of expansion at the Entertainment and Devices group.

Operating expenses should remain under close watch. Indeed, Microsoft's forecast indicates only a relatively modest increase for the year. Accordingly, earnings should advance nicely, which we now estimate at \$2.40 a share for fiscal 2011, up \$0.10 from our May report. With this figure in mind, this stock, whose current valuation is markedly below the market median, may interest investors with an intermediate horizon.

Charles Clark
August 20, 2010

(A) Fiscal year ends June 30th. (B) Primary earnings through fiscal '97, then diluted. Quarters may not add to total. Excl. nonrec. items: '98, d3c; '99, 1c '01, d26c; '02, d23c; '03, d5c; '04, d29c; '05, d4c. Next earnings report due late Oct. (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.	Company's Financial Strength A++ Stock's Price Stability 90 Price Growth Persistence 20 Earnings Predictability 90
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