## Stock Selection Guide

### VISUAL ANALYSIS of Sales, Earnings, and Price

<table>
<thead>
<tr>
<th>FY2012 Quarter Ending (09/12)</th>
<th>Sales ($M)</th>
<th>Earnings Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latest Quarter</td>
<td>16,008.0</td>
<td>0.53</td>
</tr>
<tr>
<td>Year Ago Quarter</td>
<td>17,372.0</td>
<td>0.68</td>
</tr>
<tr>
<td>Percentage Change</td>
<td>-7.85%</td>
<td>-22.06%</td>
</tr>
</tbody>
</table>

- (1) Historical Sales Growth: 9.7%
- (2) Estimated Future Sales Growth: 7.00%
- (3) Historical Earnings Per Share Growth: 13.1%
- (4) Estimated Future Earnings Per Share Growth: 9.00%

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### Company Information

- **Company**: Microsoft Corporation
- **Date**: 11/16/2012
- **Prepared by**: POY
- **Data taken from**: BI Stock Data
- **Where traded**: NAS
- **Industry**: Software - Infrastructure
- **Capitalization --- Outstanding Amounts Reference**
  - Preferred ($M): 0.0
  - % Insiders: 9.5
  - % Institution: 65.4
  - Common (M Shares): 8,396.0
  - Debt ($M): 11,950.0
  - % to Total Cap: 14.8
  - % Pot Dil: 1.2

- **Symbol**: MSFT
- **Where traded**: NAS
- **Industry**: Software - Infrastructure
- **Reference**: 11/16/2012

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### Industry Data

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### Capitalization

- **Common Stock**: 8,396.0
  - % Insiders: 9.5
  - % Institutions: 65.4
- **Preferred Stock**: 0.0
- **Debt**: 11,950.0
  - % to Total Capital: 14.8
  - % of Potential Dilution: 1.2

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### Financial Ratios

- **Current Ratio**: 1.2
- **Debt to Equity**: 0.0
- **Profit Margin**: 0.0
- **Return on Equity**: 0.0
- **Net Margin**: 0.0
- **Return on Assets**: 0.0
- **Price to Earnings**: 0.0
- **Price to Book Value**: 0.0
- **Price to Sales**: 0.0
- **Price to Free Cash Flow**: 0.0
- **Price to Operating Cash Flow**: 0.0

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### Sector Analysis

- **Industry**: Software - Infrastructure

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### Historical Performance

- **Historical Sales Growth**: 9.7%
- **Estimated Future Sales Growth**: 7.00%
- **Historical Earnings Per Share Growth**: 13.1%
- **Estimated Future Earnings Per Share Growth**: 9.00%
2 EVALUATING Management

Microsoft Corporation

Pre-tax Profit on Sales (Net Before Taxes/Sales)  
45.75%  33.11%  41.79%  41.24%  39.32%  39.41%  33.92%  40.03%  40.13%  38.60%  38.42%

% Earned on Equity (E/S / Book Value)  
16.19%  10.82%  25.15%  30.52%  43.69%  48.00%  36.48%  39.42%  39.47%  25.32%  37.74%

3 PRICE-EARNINGS HISTORY as an indicator of the future

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

PRESENT PRICE 26.5   HIGH THIS YEAR 32.95   LOW THIS YEAR 24.30

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
<td>Earnings Per Share</td>
<td>Price Earnings Ratio</td>
<td>Dividend Per Share</td>
<td>% Payout</td>
<td>% High Yield</td>
<td></td>
</tr>
<tr>
<td>1 2008</td>
<td>37.50</td>
<td>26.87</td>
<td>1.87</td>
<td>20.05</td>
<td>14.37</td>
<td>0.430</td>
<td>22.99</td>
<td>1.60</td>
</tr>
<tr>
<td>2 2009</td>
<td>28.50</td>
<td>14.87</td>
<td>1.62</td>
<td>17.59</td>
<td>9.18</td>
<td>0.500</td>
<td>30.86</td>
<td>3.36</td>
</tr>
<tr>
<td>3 2010</td>
<td>31.58</td>
<td>22.00</td>
<td>2.10</td>
<td>15.04</td>
<td>10.48</td>
<td>0.520</td>
<td>24.76</td>
<td>2.36</td>
</tr>
<tr>
<td>4 2011</td>
<td>29.46</td>
<td>23.05</td>
<td>2.69</td>
<td>10.95</td>
<td>8.57</td>
<td>0.610</td>
<td>22.68</td>
<td>2.65</td>
</tr>
<tr>
<td>5 2012</td>
<td>32.95</td>
<td>23.79</td>
<td>2.00</td>
<td>16.48</td>
<td>11.90</td>
<td>0.760</td>
<td>38.00</td>
<td>3.19</td>
</tr>
<tr>
<td>TOTAL</td>
<td>110.6</td>
<td>80.1</td>
<td>54.5</td>
<td>139.3</td>
<td>22.1</td>
<td>16.0</td>
<td>10.9</td>
<td>27.9</td>
</tr>
</tbody>
</table>

4 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 15.00  X Estimate High Earnings/Share 3.08  =  Forecasted High Price $ 46.20

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 10.90  X Estimate Low Earnings/Share 2.00  =  Forecasted Low Price $ 21.80

(b) Avg. Low Price of Last 5 Years 22.12

(c) Recent Market Low Price 23.05

(d) Price Dividend Will Support High Yield 3.20%  =  28.75

Selected Forecasted Low Price 21.80

C ZONING  using 33%-33%-33%

Forecasted High Price 46.20  Minus Forecasted Low Price 21.80  =  24.40  Range.  33% of Range 8.13

Buy Zone 21.80  to 29.93

Hold Zone 29.93  to 38.07

Sell Zone 38.07  to 46.20

Present Market Price of 26.52  is in the Buy Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

High Price 46.20  Minus Present Price 26.52  =  19.68  =  4.17  To 1

Present Price 26.52  Minus Low Price 21.80  =  4.72

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

High Price 46.20  Present Market Price 26.52  =  1.74  X 100  =  174.20  - 100  =  74.20  % 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.

A Present Full Year’s Dividend $ 0.920  =  0.03  =  3.47%  Present Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout 27.86%  =  1.86%

Forecast High PE 15.00

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 11.74%

Average Yield 1.86%

Annualized Rate of Return 13.60%