

MICROSOFT NDQ-MSFT				RECENT PRICE	29.01	P/E RATIO	20.0 (Trailing: 24.6; Median: 32.0)	RELATIVE P/E RATIO	1.04	DIV'D YLD	1.4%	VALUE LINE							
TIMELINESS	2	Raised 11/10/06	High: 6.8	10.8	18.8	36.0	60.0	58.6	38.1	35.3	30.0	30.2	28.3	30.3	Target Price Range	2009	2010	2011	
SAFETY	1	Raised 5/26/06	Low: 3.6	5.0	10.1	15.5	34.0	20.1	21.4	20.7	22.5	24.0	23.8	21.5					
TECHNICAL	3	Lowered 1/26/07	LEGENDS 19.0 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																
2009-11 PROJECTIONS																			
Ann'l Total																			
Price																			
Gain																			
Return																			
High	55	(+90%)	19%																
Low	45	(+55%)	13%																
Insider Decisions																			
M A M J J A S O N																			
to Buy																			
Options																			
to Sell																			
Institutional Decisions																			
10/2006 20/2006 30/2006																			
to Buy																			
to Sell																			
Hld's(000)																			
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
.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	4.40	5.45	Sales per sh ^A	8.40
.04	.06	.09	.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.51	1.85	"Cash Flow" per sh	2.85
.03	.05	.08	.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.45	Earnings per sh ^B	2.25
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.02	.03	.04	.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.20	Cap'l Spending per sh	.30
.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	3.99	4.60	Book Value per sh ^D	6.95
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	10062	9300	Common Shs Outst'g ^C	8000
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	21.7		Avg Ann'l P/E Ratio	22.0
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	1.22	1.15		Relative P/E Ratio	1.45
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CAPITAL STRUCTURE as of 12/31/06																			
Total Debt None																			
Leases, Uncapitalized \$250.0 mill.																			
No defined benefit pension plan.																			
Pfd Stock None																			
Common Stock 9,792,314,405 shs. as of 1/22/07																			
Options Exercisable 6.9%																			
MARKET CAP: \$284 billion (Large Cap)																			
CURRENT POSITION 2005 1906 12/31/06																			
(\$MILL.)																			
Cash Assets																			
Receivables																			
Inventory (Avg Cst)																			
Other																			
Current Assets																			
Accts Payable																			
Debt Due																			
Other																			
Current Liab.																			
ANNUAL RATES																			
Past																			
10 Yrs.																			
5 Yrs.																			
to '09-'11																			
of change (per sh)																			
Sales																			
"Cash Flow"																			
Earnings																			
Dividends																			
Book Value																			
Fiscal Year Ends																			
Quarterly Sales (\$mill.) ^A																			
Full Fiscal Year																			
2003																			
2004																			
2005																			
2006																			
2007																			
Fiscal Year Ends																			
Earnings per Share ^{A B}																			
Full Fiscal Year																			
2003																			
2004																			
2005																			
2006																			
2007																			
Cal-endar																			
Quarterly Dividends Paid ^E																			
Full Year																			
2003																			
2004																			
2005																			
2006																			
2007																			

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.

Microsoft's earnings fell in the December quarter, as had been expected. To prevent a falloff in demand in advance of the rollout of the company's upgraded operating system, *Vista*, and its revamped suite of productivity programs, *Office 2007*, Microsoft, in the second quarter, offered discounted (or free) upgrades to customers who purchased older versions. That trimmed revenues in the December interim by \$1.64 billion, and earnings by 12 cents a share. Aside from that, it was a good quarter. Demand for the *Xbox 360* game console, personal computer software, and server programs was notably strong. **With that temporary setback out of the way, the bottom line should bounce back.** Sales and earnings will get a big assist as the deferred revenues related to *Vista* and *Office 2007* are booked in the March quarter. Too, demand for those products should be good since we think some potential customers postponed purchases until the upgrades were available. What's more, although there is something of a learning curve to switch to the new offerings, they do have features, such as better security, that should lead to con-

tinued good demand for the programs. Longer term, we look for Microsoft to enjoy a reasonable degree of success as it moves into new areas, such as its online business, the *Zune* personal music player, and the television and communications fields. Still, competition remains a threat, especially from the growing array of services that offer many of the productivity applications included in *Office*, often at low cost or even for free. And Microsoft is far behind market-leader Google in the fast-growing search field and the related advertising fees that search generates. On balance, though, we look for the company to post strong annual gains in share net through our 2009-2011 investment horizon. **We like Microsoft shares.** The top-quality issue is a good choice for the year ahead, and also has above-average 3- to 5-year appreciation potential. But investors should be aware of the risks of competition, and the legal challenges the company faces, notably its ongoing dispute with European regulators over giving competitors the ability to better mesh their products with Microsoft's programs.

George A. Niemond *February 23, 2007*