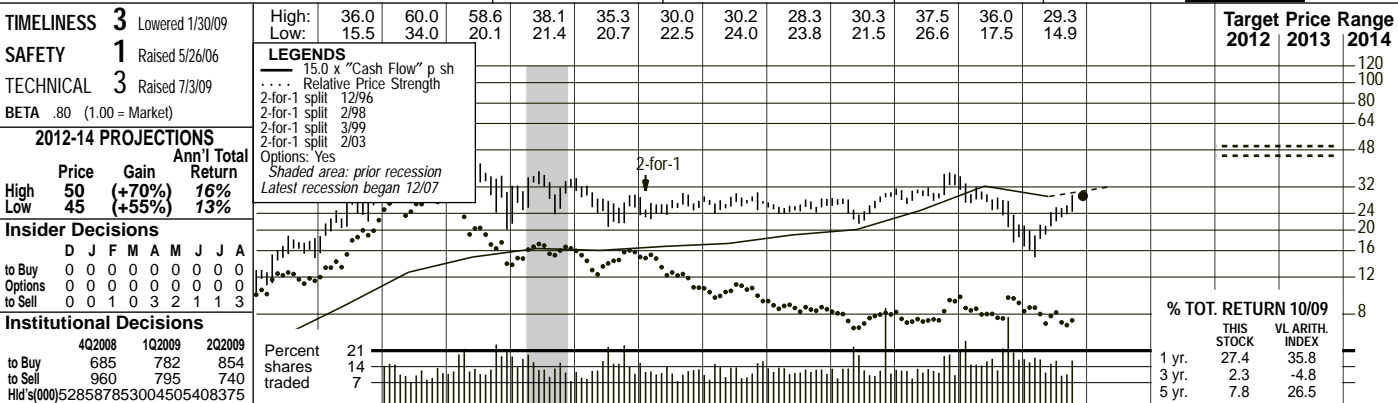


MICROSOFT NDQ-MSFT

RECENT PRICE **29.01** P/E RATIO **16.6** (Trailing: 18.8 Median: 24.0) RELATIVE P/E RATIO **0.97** DIV'D YLD **2.0%** VALUE LINE



1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
.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	6.60	6.56	6.90	Sales per sh ^A	9.80
.12	.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	2.15	"Cash Flow" per sh	3.10
.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	1.85	Earnings per sh ^B	2.65
--	--	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.52	.58	Div'ds Decl'd per sh ^E	.80
.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.25	Cap'l Spending per sh	.35
.36	.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	4.90	Book Value per sh ^D	7.70
9024.0	9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908.0	8700	Common Shs Outst'g ^C	7500
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	19.9	16.3	13.4		Avg Ann'l P/E Ratio	18.0
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	1.06	.98	.95		Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%		Avg Ann'l Div'd Yield	1.7%

CAPITAL STRUCTURE as of 9/30/09		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Sales (\$mill) ^A		73500
Total Debt \$5996 mill. Due in 5 Yrs \$4250 mill.		19747	22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	59850			Operating Margin		40.0%
LT Debt \$3746 mill. LT Interest \$140 mill.		56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	39.0%			Depreciation (\$mill)		2775
Leases, Uncapitalized \$457.0 mill. (6/30/2009)		1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1440.0	2056.0	2562.0	2650			Net Profit (\$mill)		20380
No defined benefit pension plan.		7625.0	9421.0	10003	10384	10526	11330	12715	12599	14065	17681	14569	16100			Income Tax Rate		25.5%
Pfd Stock None		35.0%	34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	30.0%	25.8%	26.5%	26.5%			Net Profit Margin		27.7%
Common Stock 8,879,121,378 shs. as of 10/19/09 (Options Exercisable 3.7%)		38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.3%	24.9%	26.9%			Working Cap'l (\$mill)		31715
MARKET CAP: \$258 billion (Large Cap)		11515	20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	25000			Long-Term Debt (\$mill)		3750
CURRENT POSITION (SMILL.)		28438	41368	47289	52180	61020	74825	48115	40104	31097	36286	39558	42750			Shr. Equity (\$mill) ^D		57775
Cash Assets		26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	33.6%	35.0%			Return on Total Cap'l		35.5%
Receivables		26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	36.8%	37.5%			Return on Shr. Equity		35.5%
Inventory (Avg Cst)		27.7%	22.7%	21.2%	19.9%	15.8%	12.8%	19.2%	22.6%	33.0%	37.7%	25.5%	25.5%			Retained to Com Eq		24.5%
Other		0%	0%	--	--	8%	15%	27%	28%	27%	23%	31%	32%			All Div'ds to Net Prof		30%

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 2009: Microsoft Business, 32.4% of total; Windows & Windows Live, 25.5%; Server and Tools, 24.3%; Entertainment & Devices, 13.8%; Online Services, 3.7%; Other, .3%. Research and development: 15.4% of 2009 sales. Employed 93,000 at 6/30/09. 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.

An improved business environment should work to support Microsoft's performance. That is not to say that the software giant is not doing plenty to help itself. Indeed, the recent release of *Windows 7*, which shows signs of being a quite successful product, was a positive factor in the financial report issued for the September period. Moreover, new server products and *Office 2010* should also help the top line as we move through the next few quarters. Nonetheless, the short-term prospects of a company the size of Microsoft, with its deep market penetration, tend to be linked to the general economic climate and, specifically, to spending on personal computers and corporate information systems. In this regard, the market for personal computers at the consumer level appears to be somewhat more active than thought previously, and it seems that businesses may well embark on a replacement cycle in the back half of calendar 2010. Meanwhile, by most accounts, spending on corporate information systems has stabilized. In sum, we continue to look for modest revenue growth at Microsoft for fiscal 2010 (ends June, 2010).

We have made upward adjustments to our earnings estimates for the current fiscal year. First of all, we were a bit conservative relative to the impact of *Windows 7* on revenues, causing us to bump up our top-line call by 2%. More importantly, though, is the effectiveness with which Microsoft management has been able to reduce operating costs. The evidence produced with the September-period financials indicates that the company is quite leveraged to revenue expansion, suggesting that even a modest upturn in spending on software and information systems is likely to yield a much greater advance at the bottom line. Accordingly, we have raised our earnings estimate for fiscal 2010 to \$1.85 a share, up \$0.15. For now, though, we note that it remains an open question as to when spending patterns are to begin their advance.

Microsoft shares are neutrally ranked for Timeliness. Nonetheless, the market cheered the company's recent financial results and looked favorably on its near-term prospects. Investors with an intermediate time horizon may do well here.

Charles Clark
November 20, 2009

Fiscal Year Ends	2006	2007	2008	2009	2010	Full Fiscal Year	2006	2007	2008	2009	2010	Full Fiscal Year
QUARTERLY SALES (\$mill.) ^A	9741	11837	10900	11804	14282	44282	.29	.34	.29	.28	1.20	1.20
QUARTERLY DIVIDENDS PAID ^E	.08	.08	.08	.08	.13	.32	.35	.26	.50	.31	1.42	1.42

(A) Fiscal year ends June 30th. (B) Primary earnings through fiscal '97, then diluted. Quarters may not add to total. Excludes non-recurring 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 Jan. (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.