

TIMELINESS 1 Raised 11/9/07	High: 10.8	18.8	36.0	60.0	58.6	38.1	35.3	30.0	30.2	28.3	30.3	37.5	Target Price Range 2010 2011 2012	
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		120
TECHNICAL 2 Raised 12/21/07	LEGENDS 17.0 x "Cash Flow" p sh Relative Price Strength 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													
BETA .95 (1.00 = Market)														
2010-12 PROJECTIONS														
Price	Gain	Ann'l Return												
High 65	(+130%)	25%												
Low 50	(+75%)	17%												
Insider Decisions														
M A M J J A S O N														
to Buy	0	0	1	0	0	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	0	0	0	0	2	4				
to Sell	0	0	7	0	4	1	0	7	6					
Institutional Decisions														
12Q2007	2Q2007	3Q2007												
to Buy	617	590	624											
to Sell	894	874	834											
Hlds(000)	566157755450455478445													
Percent shares traded	21	14	7											

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
.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	6.70	Sales per sh ^A	10.80
.06	.09	.12	.16	.18	.28	.41	.59	.84	.99	1.09	1.12	1.15	1.27	1.34	1.65	2.30	2.30	"Cash Flow" per sh	3.50
.05	.08	.10	.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	Earnings per sh ^B	2.85
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.03	.04	.03	.03	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.25	Cap'l Spending per sh	.35
.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	3.32	4.10	Book Value per sh ^D	8.05
8363.2	8708.4	9024.0	9296.0	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9000	Common Shs Outst'g ^C	7500
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	19.9		Avg Ann'l P/E Ratio	20.0
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	1.05		Relative P/E Ratio	1.35
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CAPITAL STRUCTURE as of 12/31/07																	
Total Debt	None	11358	14484	19747	22956	25296	28365	32187	36835	39788	44282	51122	60300	Sales (\$mill) ^A	81000		
Leases, Uncapitalized	\$349.0 mill.	50.1%	55.0%	56.0%	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	41.5%	Operating Margin	40.0%		
No defined benefit pension plan.		57.0	1024.0	1010.0	748.0	1536.0	1084.0	1439.0	1186.0	855.0	903.0	1440.0	1345	Depreciation (\$mill)	2075		
Pfd Stock	None	3454.0	4786.0	7625.0	9421.0	10003	10384	10526	11330	12715	12599	14065	17540	Net Profit (\$mill)	22465		
Common Stock	9,306,979,746 shs. as of 1/21/08	35.0%	35.4%	35.0%	34.0%	33.5%	32.0%	32.2%	33.1%	32.0%	31.0%	30.0%	30.5%	Income Tax Rate	30.5%		
Options Exercisable	5.5%	30.4%	33.0%	38.6%	41.0%	39.5%	36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.1%	Net Profit Margin	27.7%		
MARKET CAP:	\$264 billion (Large Cap)	6763.0	10159	11515	20553	28505	35832	44999	55597	31860	26568	16414	23005	Working Cap'l (\$mill)	48770		
		--	--	--	--	--	--	--	--	--	--	--	Nil	Long-Term Debt (\$mill)	Nil		
		10777	16627	28438	41368	47289	52180	61020	74825	48115	40104	31097	37100	Shr. Equity (\$mill) ^D	60350		
		32.0%	28.8%	26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	47.5%	Return on Total Cap'l	37.0%		
		32.0%	28.8%	26.8%	22.8%	21.2%	19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	47.5%	Return on Shr. Equity	37.0%		
		35.1%	30.4%	27.7%	22.7%	21.2%	19.9%	15.8%	12.8%	19.2%	22.6%	33.0%	36.5%	Retained to Com Eq	26.5%		
		0%	1%	0%	0%	--	--	8%	15%	27%	28%	27%	23%	All Div'ds to Net Prof	28%		

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 2007: Microsoft Business Division, 32.1% of total; Client, 29.3%; Server and Tools, 21.9%; Entertainment & Devices, 11.9%; Online Services, 4.8%. Research and development: 14.0% of 2007 sales. 2007 depreciation rate: 15.4%. Has 79,000 employees. William H. Gates owns 9.3% of stock, other officers & directors 4.7% (9/07 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	Past	Est'd '05-'07			
of change (per sh)	10 Yrs.	5 Yrs.	to '10-'12		
Sales	17.5%	13.0%	19.0%		
"Cash Flow"	17.0%	6.0%	18.0%		
Earnings	18.5%	7.0%	17.5%		
Dividends	--	--	18.0%		
Book Value	17.5%	-2.5%	15.5%		
Fiscal Year Ends	QUARTERLY SALES (\$mill.) ^A				Full Fiscal Year
	Mar.30	Jun.30	Mar.31	Jun.30	
2004	8215	10153	9175	9292	36835
2005	9189	10818	9620	10161	39788
2006	9741	11837	10900	11804	44282
2007	10811	12542	14398	13371	51122
2008	13762	16367	14500	15671	60300
Fiscal Year Ends	EARNINGS PER SHARE ^{A B}				Full Fiscal Year
	Mar.30	Jun.30	Mar.31	Jun.30	
2004	.24	.28	.29	.23	1.04
2005	.23	.32	.28	.33	1.16
2006	.29	.34	.29	.28	1.20
2007	.35	.26	.50	.31	1.42
2008	.45	.50	.45	.47	1.87
Calendar	QUARTERLY DIVIDENDS PAID ^E				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	--	--	.08	.08	.16
2005	.08	.08	.08	.08	.32
2006	.09	.09	.09	.10	.37
2007	.10	.10	.10	.11	.41
2008					

Microsoft has made an unsolicited offer to acquire Yahoo! In early February, Microsoft offered \$31 a share in cash or 0.9509 Microsoft share for each Yahoo! share, prorated so it would be a 50% cash, 50% stock deal. The offer represented a 62% premium to Yahoo! stock's closing price on the day prior to the offer, but the subsequent decline in Microsoft's share price has reduced its value. However... **Yahoo!'s board has rejected the offer.** In a letter to Microsoft, the board stated that the "proposal substantially undervalues Yahoo!", but also states that the board is "committed to pursuing initiatives that maximize value for all stockholders". Thus, the door seemingly is open to a higher bid. Rather than attempting a hostile takeover, or dropping its bid to acquire Yahoo!, Microsoft might be willing to sweeten its offer, but probably not to the \$40 a share some reports indicate Yahoo! is seeking. **If a deal were consummated, it would make Microsoft a tougher competitor in the online market.** The combined companies' search share would still lag far behind that of Google. However, the combination would lead to economies of scale in R&D and a much larger user base that should be more attractive to advertisers. Too, Microsoft estimates that it can achieve at least one billion dollars of synergies (annualized) during the first one to two years following the completion of the acquisition. **With or without Yahoo!, Microsoft's earnings likely will continue to advance at a good pace.** Demand is growing for the company's Vista operating system, and sales are strong of Office, server software, video games, and the Xbox game console. What's more, the company continues to roll out new and upgraded products and services, which should further stimulate sales. True, slowing economic growth in the U.S. is a concern, but the company's expanding business overseas, especially in fast-growing emerging markets, should help offset any domestic sluggishness. All told, earnings may well rise to the \$2.75-\$3.00 range by 2010-2012. That should allow this timely, top-quality issue to outpace the market averages over the 3- to 5-year haul.

Company's Financial Strength	A++
Stock's Price Stability	85
Price Growth Persistence	10
Earnings Predictability	95

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