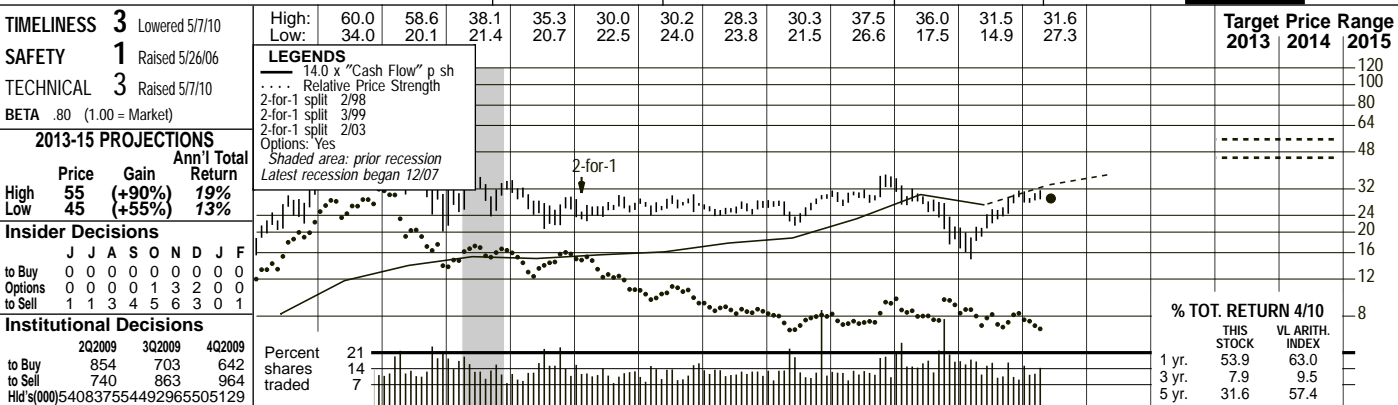


MICROSOFT NDQ-MSFT

RECENT PRICE **28.88** P/E RATIO **13.2** (Trailing: 15.0; Median: 24.0) RELATIVE P/E RATIO **0.76** DIV'D YLD **1.8%**

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	7.10	7.85	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	2.40	2.70	"Cash Flow" per sh	3.40
.12	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	2.05	2.30	Earnings per sh ^B	3.00
--	--	--	--	--	--	--	--	--	.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	.25	.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	5.35	6.55	Book Value per sh ^D	10.70
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	8500	Common Shs Outst'g ^C	7900
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	10.6	.88	Avg Ann'l P/E Ratio	16.0
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	.88	.88	.88	Relative P/E Ratio	1.05
--	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%	2.4%	2.4%	Avg Ann'l Div'd Yield	1.7%

CAPITAL STRUCTURE as of 3/31/10		22956	25296	28365	32187	36835	39788	44282	51122	60420	58437	61750	66700	Sales (\$mill) ^A	80000				
Total Debt \$5995 mill.	Due in 5 Yrs \$4249 mill.	51.3%	52.4%	45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	42.0%	43.0%	Operating Margin	42.0%				
LT Debt \$3746 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	2650	2700	Depreciation (\$mill)	2800				
(7% of Cap'l)		9421.0	10003	10384	10526	11330	12715	12599	14065	17681	14569	18275	20335	Net Profit (\$mill)	24000				
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%	29.6%	30.5%	Net Profit Margin	30.0%				
Pfd Stock None		20553	28505	35832	44999	55597	31860	26568	16414	13356	22246	29000	35000	Working Cap'l (\$mill)	40000				
Common Stock 8,763,839,329 shs. as of 4/19/10		--	--	--	--	--	--	--	--	--	3746.0	3750	3750	Long-Term Debt (\$mill)	3750				
MARKET CAP: \$253 billion (Large Cap)		41368	47289	52180	61020	74825	48115	40104	31097	36286	39558	46750	55750	Shr. Value (\$mill) ^D	84500				
CURRENT POSITION (SMILL.)	2008	2009	3/31/10	22.7%	21.2%	19.9%	15.8%	12.8%	19.2%	22.6%	33.0%	37.7%	25.5%	29.5%	28.0%	Return on Total Cap'l	27.5%		
Cash Assets	23662	31447	39666	--	--	--	8%	15%	27%	28%	27%	23%	31%	25%	24%	Return on Shr. Equity	28.5%		
Receivables	13589	11192	9137	--	--	--	--	--	--	--	--	--	3746.0	3750	Retained to Com Eq	22.0%			
Inventory (Avg Cst)	985	717	501	--	--	--	--	--	--	--	--	--	3746.0	3750	All Div'ds to Net Prof	23%			
Other	5006	5924	5214	--	--	--	--	--	--	--	--	--	3746.0	3750					
Current Assets	43242	49280	54518																
Accts Payable	4034	3324	3279																
Debt Due	--	2000	2249																
Unearned Revenue	13397	13003	11171																
Other	12455	8707	9725																
Current Liab.	29886	27034	26424																

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 increases 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.

Demand for Microsoft's Windows 7 seems set to expand. The software giant's latest operating system has already found favor with consumers, with growth in the June quarter likely to be slightly better than the current pace of the PC market. And our sense is consumer interest will hold forth well into fiscal 2011 (years end June 30th), given the shipment trends in the PC arena. Meanwhile, the company reports that businesses are showing increasing interest in Windows 7, anchoring the beginnings of a PC refresh cycle that should last a couple of years. The sales cycle in the enterprise arena is likely to remain somewhat elongated, though, as customers continue to manage IT spending carefully. Nonetheless, use of the new operating system ought to spread rather quickly, since many corporations did not upgrade Windows XP. Elsewhere, Office 2010 is now generally available, which should spur sales in the Microsoft Business Division in the year ahead. As of the March quarter, Microsoft had deferred some \$300 million from the new productivity suite, which should be recognized in the second quarter of fiscal 2011.

We look for a stronger performance from Server and Tools in the year ahead. This group's prospects usually conform with hardware shipments and corporate IT spending, and it appears that activity is improving in this regard. Notwithstanding the longer sales cycle mentioned above, Microsoft should benefit here, given the strength of its product pipeline (for example, Visual Studio 2010 and SQL Server 2008 R2).

Microsoft stock is neutrally ranked for Timeliness. The company's financial performance has been quite good so far this fiscal year, owing to the strong reception of Windows 7 and close attention to expense management. Indeed, the software giant is very leveraged to revenue growth, and our initial take is that it should maintain this advantage in fiscal 2011. Accordingly, earnings of \$2.30 a share seem in the cards for next year, up nicely from the \$2.05 we currently envision for fiscal 2010. Although MSFT shares have taken a step up since our February report, investors with an intermediate time horizon may still find interest.

Charles Clark
May 21, 2010

Fiscal Year Ends	2007	2008	2009	2010	2011	Full Fiscal Year
ANNUAL RATES (per sh)	10 Yrs.	5 Yrs.	Est'd '07-'09			
of change (per sh)	10 Yrs.	5 Yrs.	Est'd '07-'09			
Sales	15.0%	15.5%	8.5%			
"Cash Flow"	12.0%	11.5%	10.0%			
Earnings	13.0%	11.0%	10.5%			
Dividends	--	41.5%	7.5%			
Book Value	8.5%	-7.5%	18.5%			

(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 July. (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.

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