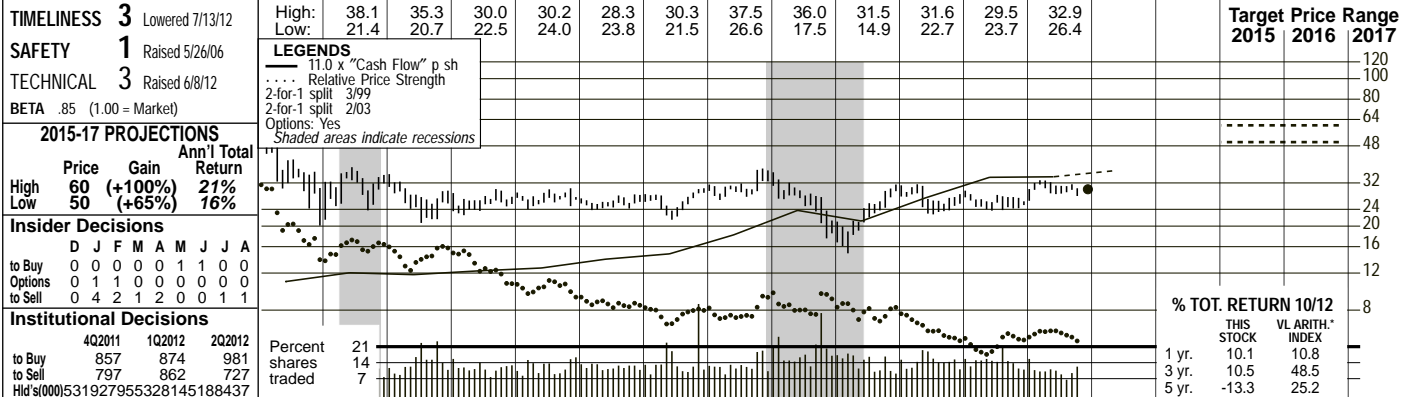


MICROSOFT NDQ-MSFT				RECENT PRICE	29.86	P/E RATIO	10.7 (Trailing: 11.6; Median: 18.0)	RELATIVE P/E RATIO	0.69	DIV'D YLD	3.1%	VALUE LINE
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1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
.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	7.21	8.35	8.79	9.65	Revenues per sh ^A	13.75
.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.34	1.65	2.16	1.92	2.47	3.09	3.12	3.35	"Cash Flow" per sh	4.75
.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	2.10	2.69	2.72	2.95	Earnings per sh ^B	4.25
--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	Div'ds Decl'd per sh ^E	1.44
.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	.28	.40	Cap'l Spending per sh	.35
.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	5.33	6.82	7.91	9.70	Book Value per sh ^D	12.25
9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908.0	8668.0	8376.0	8391.0	8300	Common Shs Outst'g ^C	7000
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	13.1	9.6	10.4		Avg Ann'l P/E Ratio	13.0
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	.89	.83	.61	.66		Relative P/E Ratio	.85
--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%	1.9%	2.5%	2.8%		Avg Ann'l Div'd Yield	2.5%

CAPITAL STRUCTURE as of 9/30/12				28365	32187	36835	39788	44282	51122	60420	58437	62484	69943	73723	80000	Revenues per sh ^A	95775
Total Debt \$11950 mill. Due in 5 Yrs \$6750 mill.				45.8%	48.0%	40.6%	44.0%	39.2%	39.1%	40.6%	39.2%	42.9%	42.8%	41.9%	42.0%	Operating Margin	42.5%
LT Debt \$9714 mill. LT Interest \$345 mill. (12% of Cap'l)				1084.0	1439.0	1186.0	855.0	903.0	1440.0	2056.0	2562.0	2673.0	2766.0	2967	3050	Depreciation (\$mill)	3500
Leases, Uncapitalized \$527.0 mill.				10384	10526	11330	12715	12599	14065	17681	14569	18760	23150	23171	24725	Net Profit (\$mill)	30000
No defined benefit pension plan				32.0%	32.2%	33.1%	32.0%	31.0%	30.0%	25.8%	26.5%	25.0%	17.5%	18.6%	20.0%	Income Tax Rate	20.0%
Pfd Stock None				36.6%	32.7%	30.8%	32.0%	28.5%	27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	30.9%	Net Profit Margin	31.3%
Common Stock 8,422,000,000 shs.				35832	44999	55597	31860	26568	16414	13356	22246	29529	46144	52396	55000	Working Cap'l (\$mill)	50000
MARKET CAP: \$251 billion (Large Cap)				--	--	--	--	--	--	--	3746.0	4939.0	11921	10713	12000	Long-Term Debt (\$mill)	12000
CURRENT POSITION				52180	61020	74825	48115	40104	31097	36286	39558	46175	57083	66363	80350	Shr. Equity (\$mill) ^D	85000
2010				19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	33.6%	36.8%	33.8%	30.3%	27.0%	Return on Total Cap'l	31.0%
2011				19.9%	17.3%	15.1%	26.4%	31.4%	45.2%	48.7%	36.8%	40.6%	40.6%	34.9%	31.0%	Return on Shr. Equity	35.5%
9/30/12				--	8%	15%	27%	28%	27%	23%	31%	24%	22%	28%	30%	All Div'ds to Net Prof	34%

CURRENT POSITION (SMILL.)				28365	32187	36835	39788	44282	51122	60420	58437	62484	69943	73723	80000	Revenues per sh ^A	95775
Cash Assets				13014	14987	9871										Operating Margin	42.5%
Receivables				740	1372	1624										Depreciation (\$mill)	3500
Inventory (Avg Cst)				5134	5787	5912										Net Profit (\$mill)	30000
Other				55676	74918	84051										Income Tax Rate	20.0%
Current Assets				4025	4197	3631										Net Profit Margin	31.3%
Accts Payable				1000	--	2236										Working Cap'l (\$mill)	50000
Debt Due				13652	15722	18295										Long-Term Debt (\$mill)	12000
Unearned Revenue				7470	8855	7240										Shr. Equity (\$mill) ^D	85000
Other				26147	28774	31402										Return on Total Cap'l	31.0%
Current Liab.																Return on Shr. Equity	35.5%

ANNUAL RATES				Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
of change (per sh)				10 Yrs.	5 Yrs.	'15-'17
Revenues				13.0%	14.0%	11.0%
"Cash Flow"				10.0%	15.0%	10.5%
Earnings				10.0%	13.5%	11.0%
Dividends				--	15.5%	17.0%
Book Value				4.0%	1.5%	13.0%

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 2012: Microsoft Business, 32.6% of total; Server and Tools, 25.3%; Windows & Windows Live, 24.9%; Entertainment & Devices, 13.0%; Online Services, 3.9%; Other, .3%. Research and development: 13.3% of 2012 sales. Employed 94,000 at 6/30/12. Stock owners: William H. Gates, 5.5%;, other offs. & dirs., 4.0% (10/12 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.

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2009	15061	16629	13648	13099	58437
2010	12920	19022	14503	16039	62484
2011	16195	19953	16428	17367	69943
2012	17372	20885	17407	18059	73723
2013	16008	21500	21000	21492	80000
Fiscal Year Ends	EARNINGS PER SHARE ^{AB}				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2009	.48	.47	.33	.34	1.62
2010	.40	.74	.45	.51	2.10
2011	.62	.77	.61	.69	2.69
2012	.68	.78	.60	.67	2.72
2013	.53	.82	.78	.82	2.95
Cal-endar	QUARTERLY DIVIDENDS PAID ^E				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.11	.11	.11	.13	.46
2009	.13	.13	.13	.13	.52
2010	.13	.13	.16	.16	.58
2011	.16	.16	.16	.20	.68
2012	.20	.20	.20	.23	

was more pronounced due to the pending release of *Windows 8* (introduced on October 26th) and the upgrade and promotional offers put in place in support of its market launch. Nonetheless, Microsoft was able to record \$1.35 billion in deferred revenue from these programs (inclusive of promotion for the upcoming *Office* suite), suggesting good demand for the new operating system and the broad range of computing devices and platforms that are now and will become available.

Meanwhile, business is likely to remain brisk at the Server & Tools group, reflecting the company's strength in the datacenter and the introduction of new products (with aggressive pricing). In addition, our sense is the top line ought to remain on the advance at the Online Services Division, owing to better revenue per search, and the segment's loss should con-

tablet, and mobile markets, so this is going to be an uphill battle. However, once users get over a very short learning curve, they seem to like *Windows 8*, and the associated App Store seems set to quickly evolve, making it very competitive. (*Windows 8* also operates with mouse and keyboard.) Meanwhile, *Surface* is also experiencing good interest. The tablet's incorporation of a version of *Office* gives it a production capability not found on Apple's *iPad*. This, combined with two keyboard selections and sharp pricing, provides meaningful product differentiation, in our view.

We continue to recommend Microsoft shares to those with an intermediate time horizon. We like the prospects for *Windows 8*, *Surface*, and Microsoft's general strategy. The stock's current valuation and dividend yield are also pluses.

Charles Clark *November 16, 2012*