

# Microsoft Corp

**STANDARD  
& POOR'S**

**S&P Recommendation** **BUY** ★★★★★

**Price**  
**\$23.93** (as of Oct 17, 2008)

**12-Mo. Target Price**  
**\$37.00**

**Investment Style**  
Large-Cap Growth

**UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION**

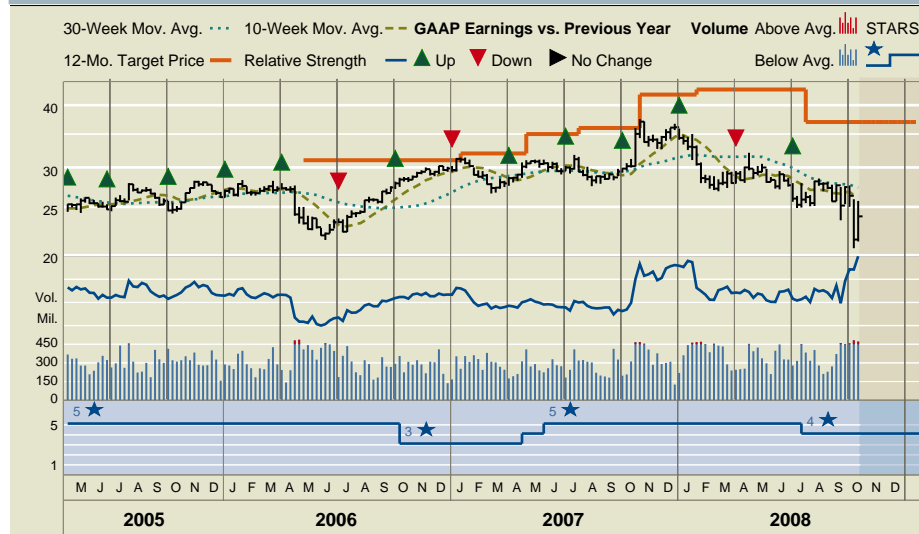
**GICS Sector** Information Technology  
**Sub-Industry** Systems Software

**Summary** Microsoft, the world's largest software company, develops PC software, including the Windows operating system and the Office application suite.

## Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$37.50–20.65</b>	S&P Oper. EPS 2008E	<b>1.87</b>	Market Capitalization(B)	<b>\$218.488</b>	Beta	<b>0.89</b>
Trailing 12-Month EPS	<b>\$1.87</b>	S&P Oper. EPS 2009E	<b>2.13</b>	Yield (%)	<b>2.17</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>10</b>
Trailing 12-Month P/E	<b>12.8</b>	P/E on S&P Oper. EPS 2008E	<b>12.8</b>	Dividend Rate/Share	<b>\$0.52</b>	S&P Credit Rating	<b>AAA</b>
\$10K Invested 5 Yrs Ago	<b>\$9,718</b>	Common Shares Outstg. (M)	<b>9,130.3</b>	Institutional Ownership (%)	<b>60</b>		

## Price Performance



Options: ASE, CBOE, P, Ph

Analysis prepared by **Jim Yin** on August 05, 2008, when the stock traded at **\$25.91**.

## Highlights

- We see total revenues rising 11% in FY 09 (Jun.), driven by increased PC sales, particularly in developing countries, and continued growth in online advertising. We expect client revenue to rise 9.5%. Our growth estimate is based on our forecast for 10%-12% growth in worldwide PC unit shipments, a lower piracy rate, and an increase in the OEM premium mix, partially offset by lower selling prices in emerging markets. We estimate that server and tools revenue will rise 16%, Microsoft Business division 12%, and Entertainment and Devices division (EDD) 6%, down from 34% in FY 08, due to slower sales of Xbox.
- We look for gross margins to remain steady at 80.5% in FY 09, down slightly from 80.8% in FY 08, as margin improvement in EDD is offset by increased spending in the online services group. We see operating margins widening to 39.2% from 37.2%, reflecting better operating efficiency due to economies of scale.
- We estimate EPS of \$2.13 for FY 09, compared to \$1.87 in FY 08, on 2.2% fewer shares due to the company's share repurchase program. MSFT had \$23.7 billion in cash and short-term investments as of June 30, 2008.

## Investment Rationale/Risk

- We recently lowered our recommendation to buy from strong buy, based on our concern of a slowing global economy and problems with its online business. We think MSFT's revenue growth will decline in FY 09 due to a more difficult year-over-year comparison following the releases of Vista, Microsoft Office and Windows Server in prior years. We believe losses in its online services business will accelerate as the company boosts investments following its failed attempt to acquire Yahoo (YHOO: hold, \$26). However, we view the shares as undervalued following a significant price decline.
- Risks to our recommendation and target price include lower than projected PC sales, a slowdown in the global economy, adverse outcomes from ongoing legal disputes, and not achieving revenue or cost synergies from acquisitions.
- Our 12-month target price of \$37 is based on a weighted blend of our discounted cash flow (DCF) and P/E analyses. Our DCF model assumes a 10.4% weighted average cost of capital and 3% terminal growth, yielding an intrinsic value of \$38. Our P/E analysis derives a value of \$36, based on an industry P/E-to-growth multiple of 1.7X, or 17X our FY 09 EPS estimate.

## Qualitative Risk Assessment

**LOW** **MEDIUM** **HIGH**

Our risk assessment reflects MSFT's ongoing antitrust-related issues, the risk that its applications and operating systems may lose market share to open source rivals, and potential difficulties releasing new products in a timely manner, mitigated by the company's current leading market positions and financial strength.

## Quantitative Evaluations

**S&P Quality Ranking** **B+**

**D** **C** **B-** **B** **B+** **A-** **A** **A+**

**Relative Strength Rank** **STRONG**

**81**  
LOWEST = 1 HIGHEST = 99

## Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2008	13,762	16,367	14,454	15,837	60,420
2007	10,811	12,542	14,398	13,371	51,122
2006	9,741	11,837	10,900	11,804	44,282
2005	9,189	10,818	9,620	10,161	39,788
2004	8,215	10,153	9,175	9,292	36,835
2003	7,746	8,541	7,835	8,065	32,187

## Earnings Per Share (\$)

	0.45	0.50	0.47	0.46	1.87
2008					
2007	0.35	0.26	0.50	0.31	1.42
2006	0.29	0.34	0.29	0.28	1.20
2005	0.23	0.32	0.23	0.34	1.12
2004	0.24	0.14	0.12	0.25	0.75
2003	0.25	0.23	0.26	0.18	0.92

Fiscal year ended Jun. 30. Next earnings report expected: Late October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

## Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.110	12/19	02/19	02/21	03/13/08
0.110	03/17	05/13	05/15	06/12/08
0.110	06/11	08/19	08/21	09/11/08
0.130	09/22	11/18	11/20	12/11/08

Dividends have been paid since 2003. Source: Company reports.

**Please read the Required Disclosures and Analyst Certification on the last page of this report.**

Redistribution or reproduction is prohibited without written permission. Copyright ©2008 The McGraw-Hill Companies, Inc.

**The McGraw-Hill Companies**

# Microsoft Corp

## Business Summary August 05, 2008

**CORPORATE OVERVIEW.** Microsoft is the world's largest software maker, primarily as a result of its dominant position in operating systems, which run 90% of all PCs currently in use, and business productivity applications, where its Office productivity suite has over 400 million users. The combination of these two strongholds provides MSFT with a strong barrier to entry for competitors, in our opinion. With MSFT generating over \$1 billion every month in free cash flow, it had \$33.4 billion in cash and investments as of June 2007, despite having paid out more than \$100 billion for dividends and share buybacks from FY 04 to FY 07 (Jun.).

**MARKET PROFILE.** According to IDC, global spending on packaged software totaled \$211.3 billion in 2005, with MSFT's share totaling \$35.0 billion or 17% of the total market. IDC expects the system infrastructure market, which comprises roughly half of MSFT's software revenues, to expand at a compound annual growth rate (CAGR) of 9.1% from 2005 through 2010. The applications market, which constitutes more than a third of revenues, is expected to increase 7.0%, and the application development and deployment market, more than 10% of revenues, is forecast to rise 7.1%. We look for MSFT to expand at slightly faster rates for the most part, as the Windows platform continues to gain market share.

**CORPORATE STRATEGY.** Ray Ozzie, when he was MSFT's chief technical officer (he replaced Bill Gates as chief software architect in June 2006), described the core of the company's business strategy as centered on software as a service rather than as a transactional purchase. This strategy is a further refinement of the .NET strategy described by Gates in 2002, and essentially is driven by three key themes: the power of advertising-supported business models, the effectiveness of online discovery and trial-version downloads as a model for new software adoption, and the demand from users for integrated user experiences that "just work."

In the coming years, MSFT expects these themes to drive the software industry. It is therefore focused on creating seamless user experiences across multiple devices, from PCs to cell phones to PDAs to home entertainment consoles and devices, for all the various tasks users engage in, from communications to productivity to e-commerce to entertainment. It also envisions delivering multiple levels of different services, some of which may be free or advertising supported, some of which will have low prices, and some at higher pricing points, depending on the needs of the user. MSFT believes software must be sold both as an application, which resides on a user's system or network, and as a service, with the application and data residing on its servers with users gaining access via the Internet.

**LEGAL/REGULATORY ISSUES.** In July 2006, the European Commission fined MSFT \$358 million related to the company's perceived non-compliance with a March 2004 decision requiring disclosure of certain interoperability information. MSFT responded that it was committed to complying with the Commission's 2004 decision, but did not believe that a fine, especially one of such magnitude, was appropriate, given that the company was acting in good faith and cooperating. MSFT indicated that it plans to take its case to European courts. In October 2006, MSFT announced that it has made progress with the Commission, and expected to deliver its Vista operating system on time in Europe.

MSFT is involved in a patent dispute with Alcatel-Lucent (ALU: sell, \$6) in regard to its MP3 audio compression technology. A federal judge reversed a \$1.5 billion jury verdict, stating that MSFT licensed the technology from Fraunhofer Gesellschaft, a co-owner of the patent. We believe ALU will appeal the judge's ruling.

On February 1, 2008, MSFT made an unsolicited bid to acquire all outstanding shares of Yahoo (YHOO: hold, \$22) for \$31 per share in a cash and stock deal valued at \$44.6 billion. The two companies have broken off talks after Yahoo rejected a sweetened offer of \$33 per share.

**FINANCIAL TRENDS.** From FY 02 through FY 07, total revenue increased at a CAGR of 12.5%. Overall gross margins declined to 79.1% from 81.7% mainly due to, in our opinion, the higher sales of hardware such as Xbox, which has lower gross margins than other revenues. Other operating expenses as a percentage of total revenues expanded to 42.8%, from 39.7% in FY 02. Operating earnings rose at a CAGR of 9.2%. EPS was \$0.70 in FY 02, compared to \$1.42 in FY 07.

## Corporate Information

**Investor Contact**  
F. Brod (800-285-7772)

**Office**  
1 Microsoft Way, Redmond, WA 98052-8300.

**Telephone**  
425-882-8080.

**Fax**  
425-706-7329.

**Email**  
msft@microsoft.com

**Website**  
<http://www.microsoft.com>

### Officers

**Chrmn**  
W.H. Gates, III

**SVP & CFO**  
C.P. Liddell

**CEO**  
S.A. Ballmer

**SVP, Secy & General Counsel**  
B.L. Smith

**C00**  
B.K. Turner

### Board Members

S. A. Ballmer  
J. I. Cash, Jr.  
D. Dublon  
W. H. Gates, III  
R. V. Gilmartin  
R. Hastings  
D. F. Marquardt  
C. H. Noski  
H. Panke  
J. A. Shirley

**Domicile**  
Washington

**Founded**  
1975

**Employees**  
91,000

**Stockholders**  
145,903

**Microsoft Corp****Quantitative Evaluations**

<b>S&amp;P Fair Value Rank</b>	5+	1	2	3	4	5
LOWEST <span style="float: right;">HIGHEST</span> Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).						

<b>Fair Value Calculation</b>	<b>\$26.20</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that MSFT is slightly undervalued by \$2.27 or 9.5%.
-------------------------------	----------------	--

<b>Investability Quotient Percentile</b>	94
LOWEST = 1 <span style="float: right;">HIGHEST = 100</span> MSFT scored higher than 94% of all companies for which an S&P Report is available.	

<b>Volatility</b>	LOW	AVERAGE	HIGH
-------------------	-----	---------	------

<b>Technical Evaluation</b>	<b>BEARISH</b>	Since September, 2008, the technical indicators for MSFT have been BEARISH.
-----------------------------	----------------	---

<b>Insider Activity</b>	UNFAVORABLE	NEUTRAL	FAVORABLE
-------------------------	-------------	---------	-----------

**Expanded Ratio Analysis**

	2007	2006	2005	2004
Price/Sales	6.88	7.10	7.17	7.90
Price/EBITDA	17.63	18.10	18.50	28.48
Price/Pretax Income	17.51	17.22	17.15	23.87
P/E Ratio	25.02	24.96	23.27	35.64
Avg. Diluted Shares Outstg (M)	9,886.0	10,531.0	10,906.0	10,894.0

Figures based on calendar year-end price

**Key Growth Rates and Averages**

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	15.45	11.52	12.04	13.58
Net Income	11.64	18.04	12.20	9.77

**Ratio Analysis (Annual Avg.)**

Net Margin (%)	27.51	28.92	28.00	30.95
% LT Debt to Capitalization	Nil	Nil	Nil	Nil
Return on Equity (%)	39.51	29.34	23.47	23.76

**Company Financials** Fiscal Year Ended Jun. 30

Per Share Data (\$)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Tangible Book Value	2.71	3.55	4.14	6.55	5.34	2.05	4.39	3.92	2.69	1.59
Cash Flow	1.57	1.28	1.20	0.86	1.05	0.80	0.83	0.92	0.80	0.51
Earnings	1.42	1.20	1.12	0.75	0.92	0.71	0.66	0.85	0.71	0.42
S&P Core Earnings	1.38	1.27	1.20	0.83	0.75	0.65	0.58	NA	NA	NA
Dividends	0.39	0.34	3.32	0.16	0.08	Nil	Nil	Nil	Nil	Nil
Payout Ratio	27%	28%	NM	21%	9%	Nil	Nil	Nil	Nil	Nil
Prices:High	37.50	30.26	28.25	30.20	30.00	35.31	38.08	59.31	59.97	36.00
Prices:Low	26.60	21.46	23.82	24.86	22.55	20.71	21.44	20.13	34.00	15.55
P/E Ratio:High	26	25	25	40	33	50	58	70	84	86
P/E Ratio:Low	19	18	21	33	25	29	32	24	48	37

**Income Statement Analysis** (Million \$)

Revenue	51,122	44,282	39,788	36,835	32,187	28,365	25,296	22,956	19,747	14,484
Operating Income	19,964	17,375	15,416	10,220	14,656	12,994	13,256	11,685	10,938	7,734
Depreciation	1,440	903	855	1,186	1,439	1,084	1,536	748	1,010	1,024
Interest Expense	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Pretax Income	20,101	18,262	16,628	12,196	14,726	11,513	11,525	14,275	11,891	7,117
Effective Tax Rate	30.0%	31.0%	26.3%	33.0%	32.1%	32.0%	33.0%	34.0%	34.5%	36.9%
Net Income	14,065	12,599	12,254	8,168	9,993	7,829	7,721	9,421	7,785	4,490
S&P Core Earnings	13,643	13,329	13,107	9,042	8,155	7,051	6,518	NA	NA	NA

**Balance Sheet & Other Financial Data** (Million \$)

Cash	6,111	6,714	4,851	15,982	6,438	3,016	3,922	4,846	17,236	13,927
Current Assets	40,168	49,010	48,737	70,566	58,973	48,576	39,637	30,308	20,233	15,889
Total Assets	63,171	69,597	70,815	92,389	79,571	67,646	59,257	52,150	37,156	22,357
Current Liabilities	23,754	22,442	16,877	14,969	13,974	12,744	11,132	9,755	8,718	5,730
Long Term Debt	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Common Equity	31,097	40,104	48,115	74,825	61,020	52,180	47,289	41,368	27,458	15,647
Total Capital	31,097	40,104	48,115	74,825	62,751	52,578	48,125	42,753	28,438	16,627
Capital Expenditures	2,264	1,578	812	1,109	891	770	1,103	879	583	656
Cash Flow	15,505	13,502	13,109	9,354	11,432	8,913	9,257	10,156	8,767	5,486
Current Ratio	1.7	2.2	2.9	4.7	4.2	3.8	3.6	3.1	2.3	2.8
% Long Term Debt of Capitalization	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
% Net Income of Revenue	27.5	28.5	30.8	22.2	31.0	27.6	30.5	41.0	39.4	31.0
% Return on Assets	21.2	17.9	14.8	9.4	13.6	12.4	13.9	20.8	26.2	24.4
% Return on Equity	39.5	28.6	19.9	11.7	17.7	15.7	17.4	27.3	36.0	35.1

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Microsoft Corp

## Sub-Industry Outlook

Our fundamental outlook for the Systems Software sub-industry is positive. We are optimistic about prospects for certain areas of the sub-industry in 2009, including operating systems on personal computers and mobile devices, desktop and server virtualization software, data storage and backup recovery. We expect systems software to profit from several macro trends, such as the leveraging of the existing hardware infrastructure and the continued growth of the Internet.

We forecast that spending on systems software will increase in the low teens in 2009. Despite weakness in the U.S. economy, we forecast 9%-11% growth of PC sales, driven by stronger growth in laptop, consumer, and international markets and aided by lower component prices and favorable foreign exchange. We see slower-than-expected enterprise adoption of Windows Vista even after Microsoft released Vista Service Pack 1, as we see no compelling business justification to upgrade from prior versions of Windows operating systems.

We see the sub-industry benefiting from the rapid growth of the Internet and distributed network computing, creating strong demand for software applications and systems that take advantage of these platforms. Many software vendors and customers are focusing on Web services, with particular emphasis on the integration of disparate systems and applications. In addition, we see incremental growth opportunity from the convergence of personal computers, cell phones, and home entertainment, as the way we communicate and share information becomes more diverse. We believe the sub-industry will benefit from industry consolidation, as software companies such as Oracle acquire smaller vendors to broaden product suites. We expect profitability to improve as a result of cost savings from consolidation.

Additionally, most software companies have strong balance sheets with significant amounts of cash, in our view, and they have been buying back shares.

However, we are cautious on the security software market segment. We view this market segment as mature, despite modest growth opportunity in securing endpoints driven by the increased prevalence of mobile devices. In addition, we think Vista will adversely affect some of the security software vendors due to its improved security protection, although some consumers will purchase competing software that offers higher levels of protection from growing online threats.

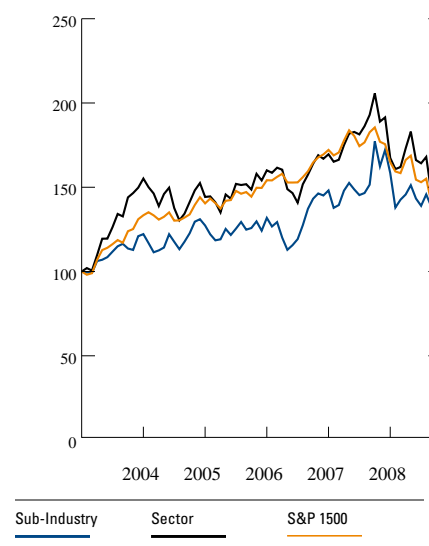
Year to date through September 19, the Systems Software Index declined 21.9%, compared to a 13.4% decrease for the S&P 1500; the index rose 18.6% in 2007, versus a 3.6% advance for the S&P 1500.

--Jim Yin

## Stock Performance

**GICS Sector: Information Technology**  
**Sub-Industry: Systems Software**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 09/30/08



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

## Sub-Industry : Systems Software Peer Group\*: Systems Software - Larger Cos.

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Microsoft Corp</b>	<b>MSFT</b>	<b>218,488</b>	<b>23.93</b>	<b>37.50/20.65</b>	<b>0.89</b>	<b>2.2</b>	<b>13</b>	<b>26.20</b>	<b>B+</b>	<b>94</b>	<b>29.3</b>	<b>NA</b>
BMC Software	BMC	4,840	25.47	40.87/23.01	1.77	Nil	19	30.10	C	91	18.1	NA
CA Inc	CA	8,240	15.90	28.11/13.88	1.08	1.0	15	17.10	B-	54	11.7	35.3
Dynamics Research	DRCO	52	5.42	12.00/5.00	0.05	Nil	60	8.50	B-	45	3.1	7.4
MICROS Systems	MCRS	1,676	20.77	37.49/13.27	1.14	Nil	17	20.00	B	81	10.6	NA
Novell Inc	NOVL	1,647	4.77	7.70/2.49	1.32	Nil	NM	3.60	B-	41	NM	34.1
Radiant Systems	RADS	171	5.28	18.33/5.26	2.01	Nil	12	7.30	B-	66	4.7	7.7
Wind River Systems	WIND	642	8.24	13.42/6.07	2.25	Nil	NM	7.50	B-	85	NA	NA

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

# Microsoft Corp

## S&P Analyst Research Notes and other Company News

### October 16, 2008

01:58 pm ET ... S&P REITERATES BUY OPINION ON SHARES OF YAHOO (YHOO 13.08\*\*\*\*): According to unconfirmed sources, including Bloomberg, Microsoft (MSFT 22.8\*\*\*\*) CEO Steve Ballmer indicated earlier today that a combination with YHOO could still make sense for their shareholders. We agree. Despite surging 11% today, YHOO shares are still roughly 58% lower than the \$31 buyout offer MSFT disclosed 2/1. We have been surprised YHOO has not taken what we consider as new material actions to generate shareholder value, after Carl Icahn and two of his allies joined YHOO's board some two months ago. Despite a tough economy, we still view YHOO as attractive. /S.Kessler

### October 15, 2008

Microsoft Corporation announces L. Michael Golden as corporate vice president of the Education Products Group, a newly created position that is to play a global role within Microsoft. Hiring Golden highlights the company's commitment to delivering technology that can help scale and support quality education experiences for all and enable students and educators to achieve their fullest potential. Golden will be responsible for leading Microsoft's education vision and strategy execution, driving education product development, business development and go-to-market efforts. Golden brings a wealth of education expertise to Microsoft, including several years of experience in senior education administration as deputy secretary of the Pennsylvania Department of Education's Office of Information and Educational Technology. Most recently, Golden was senior vice president of marketing and strategic planning at Pearson School, a global leader in educational publishing, assessment, information and services. In his new role, Golden will report to Anoop Gupta, corporate vice president, Microsoft Unlimited Potential Group and Education Product Group, Technology Policy and Strategy.

### October 9, 2008

Microsoft Corporation named Lane Sorgen as general manager of the South Central Enterprise District, based in Dallas.

### September 22, 2008

MSFT sets \$40 billion stock buyback. Raises its quarterly dividend by 18% to \$0.13 from \$0.11.

### September 22, 2008

10:59 am ET ... S&P REITERATES NEUTRAL FUNDAMENTAL OUTLOOK ON THE INFORMATION TECHNOLOGY SECTOR (MSFT 26.17\*\*\*\*): MSFT and Hewlett-Packard (HPQ 48.0\*\*\*\*) announce new large buybacks of \$40B and \$8B, respectively, underscoring, in our view, solid operations and strong balance sheets. Since the credit crunch began last year, we highlighted that technology companies typically do not need to borrow capital as a core part of their businesses. However, we expect enterprise-focused technology vendors to be adversely affected by the recent maelstrom in the world of financial services, and we foresee well-diversified and well-capitalized companies like HPQ and MSFT gaining market share. /S.Kessler

### September 22, 2008

10:13 am ET ... S&P MAINTAINS BUY RECOMMENDATION ON SHARES OF MICROSOFT (MSFT 26.21\*\*\*\*): MSFT announces a new \$40B stock repurchase program, after completing its previous \$40B repurchase program, and an 18% increase in its quarterly dividend to \$0.13 per share. Additionally, the board has authorized up to \$6B in debt financing for general corporate purposes, including share buybacks. We see this announcement as positive, expressing management's belief that its shares are undervalued and its confidence in MSFT's long-term profitability. We keep our FY 09 (June) EPS estimate of \$2.13, but expect the share repurchase to be accretive to earnings long term. /J.Yin

### September 5, 2008

Microsoft Corporation has appointed Mteto Nyati to head its South African subsidiary, Microsoft Sa, as the company steps up its plans to grow its business across all sectors of the local economy. Nyati comes to Microsoft from a 12-year career at IBM, where he was the director of IBM Global Technology Services for South and Central Africa since June 2005.

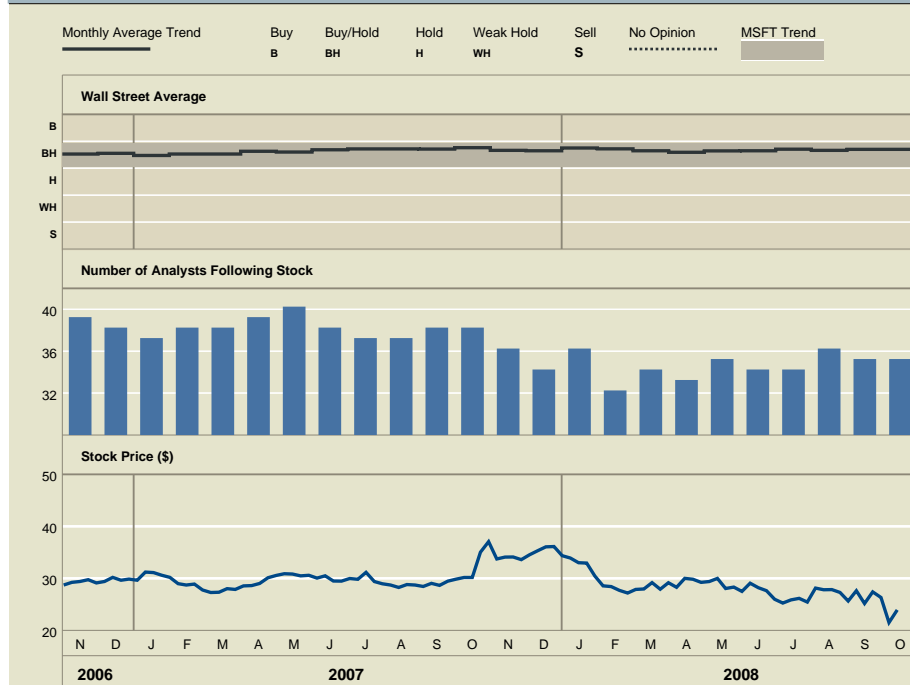
### September 2, 2008

Microsoft Corporation has appointed Jeff Kelisky as its general manager of

commercial search as part of the company's restructure of its search business group. Kelisky, the former chief executive of the Microsoft-owned UK online mapping company Multimap, will lead the company's worldwide search business, focusing on growing market share and revenue.

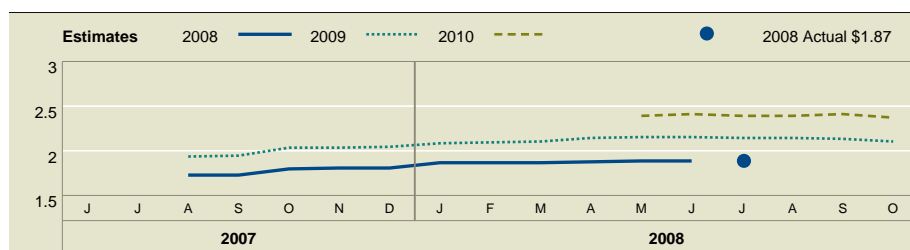
### August 29, 2008

11:13 am ET ... S&P MAINTAINS BUY RECOMMENDATION ON SHARES OF MICROSOFT (MSFT 27.49\*\*\*\*): MSFT has agreed to acquire Greenfield Online (SRVY 17.34\*\*\*\*) for \$486M in cash (\$17.50 per SRVY share), subject to approvals. We view as positive the proposed acquisition of this provider of online comparison shopping, following recent MSFT acquisition of air fare info provider Farecast. We think SRVY purchase would strengthen MSFT's online platform and is consistent with strategy of simplifying tasks related to online transactions. We see long-term benefits of increased investment, but project losses in MSFT's online service business for next couple of years. /J.Yin

**Microsoft Corp****Analysts' Recommendations**

Of the total 41 companies following MSFT, 35 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	15	43	16	16
Buy/Hold	10	29	10	9
Hold	10	29	9	9
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	2
<b>Total</b>	<b>35</b>	<b>100</b>	<b>35</b>	<b>36</b>

**Wall Street Consensus Estimates**

Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2010	2.38	2.60	2.07	31	10.1
2009	2.11	2.18	1.96	32	11.3
<b>2010 vs. 2009</b>	<b>▲ 13%</b>	<b>▲ 19%</b>	<b>▲ 6%</b>	<b>▼ -3%</b>	<b>▼ -11%</b>
Q1'10	0.52	0.57	0.46	12	46.0
Q1'09	0.47	0.48	0.45	29	50.9
<b>Q1'10 vs. Q1'09</b>	<b>▲ 11%</b>	<b>▲ 19%</b>	<b>▲ 2%</b>	<b>▼ -59%</b>	<b>▼ -10%</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

**Wall Street Consensus Opinion****BUY/HOLD****Companies Offering Coverage**

Over 30 firms follow this stock; not all firms are displayed.

American Technology Research  
Argus Research Corp.  
Atlantic Equities  
Banc of America Securities LLC.  
Barclays Capital  
C. E. Unterberg, Towbin  
Canaccord Capital  
Cowen & Co.  
Credit Suisse First Boston  
Crowell Weedon & Co.  
D A Davidson & Company  
Davenport & Co Of Virginia  
Deutsche Bank  
Dolmen Butler Briscoe-Equity Research  
First Global Stockbroking Ltd.  
Friedman, Billings, Ramsey & Co.  
Global Equities Research  
Goldman Sachs & Co.  
Griffin Securities, Inc.  
JP Morgan Securities  
Jefferies & Company  
Jyske Bank  
Kintisheff Research  
Mcadams Wright Ragen  
Merrill Lynch Research  
Morgan Stanley & Company  
Nutmeg Securities, Ltd.  
Oppenheimer  
Pacific Crest Securities  
Pacific Growth Equities

**Wall Street Consensus vs. Performance**

For fiscal year 2009, analysts estimate that MSFT will earn \$2.11. For fiscal year 2010, analysts estimate that MSFT's earnings per share will grow by 13% to \$2.38.



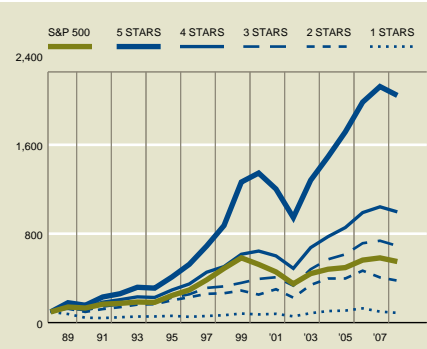
**Microsoft Corp**

**Glossary**

**S&P STARS**

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

**STARS Average Annual Performance**



**S&P 12-Month Target Price**

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Investment Style Classification**

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

**Qualitative Risk Assessment**

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

**Quantitative Evaluations**

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

**S&P Quality Ranking**

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capitalize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

**S&P Fair Value Rank**

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

**S&P Fair Value Calculation**

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

**Insider Activity**

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

**Funds From Operations FFO**

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

**Investability Quotient (IQ)**

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

**S&P's IQ Rationale:**

Microsoft Corp	Raw Score	Max Value
Proprietary S&P Measures	52	115
Technical Indicators	27	40
Liquidity/Volatility Measures	15	20
Quantitative Measures	49	75
<b>IQ Total</b>	<b>143</b>	<b>250</b>

**Volatility**

Rates the volatility of the stock's price over the past year.

**Technical Evaluation**

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

**Relative Strength Rank**

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

**Global Industry Classification Standard (GICS)**

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 67 Industries, and 147 Sub-Industries.

**S&P Issuer Credit Rating**

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

**Exchange Type**

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

**S&P Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC-London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).**

# Microsoft Corp

## Required Disclosures

### S&P Global STARS Distribution

**In North America:** As of September 30, 2008, research analysts at Standard & Poor's Equity Research Services U.S. have recommended 30.7% of issuers with buy recommendations, 58.3% with hold recommendations and 11.0% with sell recommendations.

**In Europe:** As of September 30, 2008, research analysts at Standard & Poor's Equity Research Services Europe have recommended 38.6% of issuers with buy recommendations, 39.9% with hold recommendations and 21.5% with sell recommendations.

**In Asia:** As of September 30, 2008, research analysts at Standard & Poor's Equity Research Services Asia have recommended 41.7% of issuers with buy recommendations, 47.3% with hold recommendations and 11.0% with sell recommendations.

**Globally:** As of September 30, 2008, research analysts at Standard & Poor's Equity Research Services globally have recommended 32.6% of issuers with buy recommendations, 54.9% with hold recommendations and 12.5% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★★★ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

## Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&P M") which is regulated by the Securities Commission and in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&P M, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

Standard & Poor's or an affiliate may license certain intellectual property or provide pricing or other services to, or otherwise have a financial interest in, certain issuers of securities, including exchange-traded investments whose investment objective is to substantially replicate the returns of a proprietary Standard & Poor's index, such as the S&P 500. In cases where Standard & Poor's or an affiliate is paid fees that are tied to the amount of assets that are invested in the fund or the volume of trading activity in the fund, investment in the fund will generally result in Standard & Poor's or an affiliate earning compensation in addition to the subscription fees or other compensation for services rendered by Standard & Poor's. A reference to a particular investment or security by Standard & Poor's and one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

S&P and/or one of its affiliates has performed services for and received compensation from this company during the past twelve months.

## Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. - this report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia, all queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng, or Ching Wah Tam.

This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041.