ARGUS

Microsoft is the world's largest independent software developer. The company's business is organized into three divisions. The Platform Products & Services division combines Windows Client, Server and Tools, and MSN. The Business division includes Information Worker products, such as Office and Microsoft Business Solutions. Finally, the Entertainment and Devices division features the Xbox 360 game console, video games such as 'Halo 3,' and software for mobile and embedded devices. Microsoft has about 71,000 employees worldwide and is based in Redmond, Washington.

Analyst's Notes

Analysis by Jackson N. Turner, April 24, 2009

ARGUS RATING: BUY

- MSFT: Remains attractive value; expect slight FY09 beat
- Microsoft's EPS fell 28% compared with 3Q08. A key driver of Microsoft's poor performance was weak PC sales during the quarter.
- As a result of Microsoft's weak performance in 3Q09, and our concern that the company will be unable to cut costs by any great measure, we are cutting our EPS estimate for FY09 and FY10.
- However our revised EPS estimate for FY09 remains above consensus and the shares continue to trade at a healthy discount to peers.
- The stock's trailing P/E of 10.5, compared to the peer average of 19.8, does not reflect the cash-generating power of MSFT, in our opinion.

INVESTMENT THESIS

We are reiterating our BUY rating on Microsoft Corp. (NGS: MSFT), as the stock's valuation remains attractive. Unexpectedly, 3Q09 results were negative, as the top-line declined on a year-over-year basis for the first time in the company's history in the public market. This drove Microsoft's EPS down 28% compared with 3Q08. A key driver of Microsoft's poor performance was weak PC sales during the quarter. As a result of this weak performance, as well as our concern that the company will be unable to make significant cost cuts, we are lowering our EPS estimates for both this year and next. Nonetheless, we believe that MSFT remains attractively valued; the stock's trailing P/E of 10.5, compared to the peer average of 19.8, does not reflect the cash-generating power of MSFT, in our opinion. We are maintaining our target price of $24.

RECENT DEVELOPMENTS

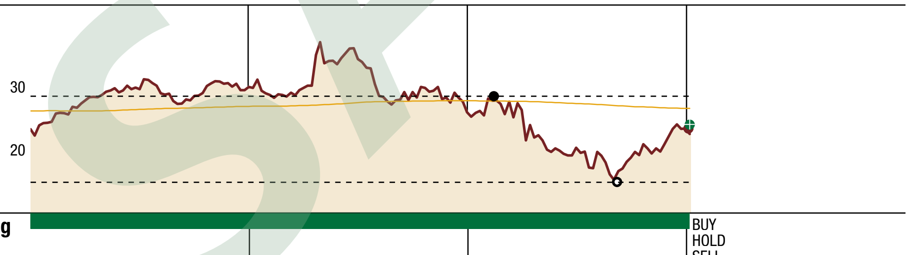
For the third quarter of fiscal 2009 (ended March 31), Microsoft posted earnings of $2.97 billion or $0.33 per share, down from $4.38 billion or $0.47 per share a year earlier. Revenue decreased 5.6% year-over-year to $13.4 billion. We believe the decline

Market Data

Pricing reflects previous trading week's closing price.

—200-Day Moving Average · Target Price: $24.00 · 52 Week High: $28.50 · 52 Week Low: $14.87 · Closed at $23.37 on 7/3

Price ($)



Rating

EPS ($)

FY ends Jun 30	2007 Q1	Q2	Q3	Q4	2008 Q1	Q2	Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4
EPS Quarterly	0.35	0.26	0.50	0.39	0.45	0.50	0.47	0.46	0.48	0.47	0.50	0.55	0.53	0.58	0.55	0.61
EPS Annual	1.49				1.87				1.74 (Estimate)				1.97 (Estimate)			
Revenue ($ in Bil.) Quarterly	10.8	12.5	14.4	13.4	13.8	16.4	14.5	15.8	15.1	16.6	15.5	16.9	16.0	17.6	16.7	18.5
Revenue Annual	51.1				60.4				64.1 (Estimate)				68.8 (Estimate)			

Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 42% Buy, 48% Hold, 11% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$22.56
Target Price	$24.00
52 Week Price Range	$14.87 to $28.50
Shares Outstanding	8.90 Billion
Dividend	$0.44

Sector Overview

Sector	Technology
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	17.00%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	--
Return on Equity	41.9%
Net Margin	25.9%
Payout Ratio	0.25
Current Ratio	1.45
Revenue	$61.18 Billion
After-Tax Income	$15.82 Billion

Valuation

Current FY P/E	11.45
Prior FY P/E	12.97
Price/Sales	3.28
Price/Book	5.44
Book Value/Share	$4.15
Market Capitalization	$200.78 Billion

Forecasted Growth

1 Year EPS Growth Forecast
-6.95%

5 Year EPS Growth Forecast
8.00%

1 Year Dividend Growth Forecast
2.33%

Risk

Beta	0.83
Institutional Ownership	59.68%

Please see important information about this report on page 5

Analyst's Notes...Continued

reflects the weak state of the economy rather than a decline in company fundamentals. Microsoft's operating margin widened to 32.5% in 3Q09 from 30.5% in 3Q08.

EARNINGS & GROWTH ANALYSIS

Microsoft has discontinued revenue and EPS guidance, citing a volatile macroeconomic environment. Looking ahead, we expect global software investment spending to decline at about double the pace of global economic activity. We also expect demand to fall first in developed markets, followed by declines in emerging markets. That said, not all enterprise software companies are affected in the same manner, and Microsoft's revenue base is smoothed by long-term contracts with enterprise customers. While businesses will undoubtedly cut discretionary spending, we believe that IT investments that reduce operating costs will remain attractive.

In light of the deteriorating global economy, we are lowering our revenue growth estimate for FY09 to 0.5% from 7%. In turn, we are cutting our FY09 EPS estimate to $1.74, though this is still above the consensus estimate of $1.73. Reflecting our expectations for sluggish top-line growth in the first half of the year, we now anticipate EPS of $1.97 in FY10, down from our previous forecast of $2.26. We are also lowering our five-year earnings growth rate estimate to 8% from 10%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for Microsoft is High, the top of our five-point scale. The company finished 3Q09 with cash and short-term investments of $25.3 billion, long-term investments of $4.1 billion and working capital of $17 billion. Long-term liabilities at the end of the quarter totaled $8.1 billion. Operating cash flow for 3Q09 decreased 49% year-over-year to $3.6 billion. After subtracting capital expenditures of $1.8 billion, free cash flow amounted to $5.4 billion.

We expect the company to pay dividends of $0.44 per share in FY09 and $0.46 per share in FY10.

RISKS

Investors in Microsoft face potential losses if the company's operating performance falls short of expectations. Risks include the potential for an unexpected downturn in global software investment spending; security vulnerabilities in the company's products; the rapid adoption of Linux and/or other open-source code software applications; increased competition in the internet space; and legal risks. Another risk is management's ability to execute its business plan and deliver new products on schedule. Microsoft's shares, which are a prominent component of major indices, are also vulnerable to market risk.

In the case of the Xbox 360, Microsoft faces an uphill battle against market leader Sony and a resurgent Nintendo. Highly aggressive pricing from both Sony and Nintendo may hamper Microsoft's effort to generate acceptable long-term profits in this area.

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2004	2005	2006	2007	2008
Revenue	36,835	39,788	44,282	51,122	60,420
COGS	6,716	6,200	7,650	10,693	11,598
Gross Profit	30,119	33,588	36,632	40,429	48,822
SG&A	13,306	12,843	13,576	14,784	18,166
R&D	7,779	6,184	6,584	7,121	8,164
Total Expenses	—	—	—	—	—
Operating Income	9,034	14,561	16,472	18,524	22,492
Interest Expense	-3,187	—	—	—	—
Other Items	3,187	2,067	1,790	1,577	1,322
Pretax Income	12,221	16,628	18,262	20,101	23,814
Income Taxes	4,028	4,374	5,663	6,036	6,133
Tax Rate (%)	33	26	31	30	26
Net Income	8,168	12,254	12,599	14,065	17,681
Diluted Shares Outstanding	10,894	10,906	10,531	9,886	9,470
EPS	0.75	1.12	1.20	1.42	1.87
Dividend	0.16	3.32	0.34	0.39	0.43
GROWTH RATES (%)					
Revenue	14.14	8.30	11.30	15.46	17.88
Gross Profit	13.35	11.80	9.07	10.37	20.45
Operating Income	-31.85	61.46	13.13	12.47	21.10
Net Income	-18.50	50.31	2.82	11.64	25.39
EPS	—	49.33	7.14	18.33	31.69
Dividend	—	2,075.00	10.24	114.71	110.26
VALUATION ANALYSIS					
Price: High	$29.96	$29.98	$28.16	$31.21	$37.06
Price: Low	$24.15	$23.92	$21.51	$22.26	$26.99
Price/Sales: High-Low	— - —	— - —	— - —	— - —	— - —
P/E: High-Low	39.4 - 31.8	26.5 - 21.2	23.3 - 17.8	21.7 - 15.5	19.5 - 14.2
Price/Cash Flow: High-Low	22.2 - 17.9	19.6 - 15.6	20.4 - 15.6	17.1 - 12.2	16.0 - 11.7

Financial & Risk Analysis

FINANCIAL STRENGTH	2006	2007	2008
Cash ($ in Millions)	6,714	6,111	10,339
Working Capital ($ in Millions)	26,568	16,414	13,356
Current Ratio	2.18	1.69	1.45
LT Debt/Equity Ratio (%)	—	—	—
Total Debt/Equity Ratio (%)	—	—	—
RATIOS (%)			
Gross Profit Margin	82.7	79.1	80.8
Operating Margin	37.2	36.2	37.2
Net Margin	28.5	27.5	29.3
Return On Assets	17.9	21.2	25.9
Return On Equity	28.6	39.5	52.3
RISK ANALYSIS			
Cash Cycle (days)	55.5	61.1	59.8
Cash Flow/Cap Ex	12.1	9.4	7.9
Oper. Income/Int. Exp. (ratio)	—	—	—
EPS/Dividend (ratio)	3.5	3.6	4.3

The data contained on this page of this report have been provided by Mergent, Inc. and is set forth herein for historical reference only. These data are not necessarily used in Argus' analysis of the stock set forth on this page of this report or any other stock or other security. These data may be incomplete or absent. All earnings figures are in GAAP. A data dictionary provided by Argus includes more detailed information about these data. Please see the final page of this report for additional information on Mergent, Inc. and the data dictionary.

Please see important information about this report on page 5

Analyst's Notes...Continued

In the internet space, the company faces increased competition from Google and Yahoo! And the competitive threat goes beyond the battle for online advertising revenue. Google, Yahoo! and other competitors may continue to provide internet-based software applications, possibly eroding the importance of Microsoft's underlying operating system and Office products over time.

VALUATION

Our fair value estimate for MSFT remains $24. The stock is trading at an attractive discount to peers. MSFT's P/E of 10.5 is nearly half the peer average of 19.8, and the current-year projected multiple of 10.9 is also below the peer average of 16. Our discounted cash flow model also suggests the shares are undervalued. Key assumptions in our DCF model include a long-term revenue growth rate of 5% and a long-term operating margin of 36%. Based on four-year historical multiples of revenue, earnings and cash flow, we expect MSFT shares to trade in a range of $17-$27 over the next 12 months, with an average price near $24.

On April 24 at midday, BUY-rated MSFT traded at $20.60, up $1.68.

Analysis by Jackson N. Turner, January 26, 2009

ARGUS RATING: BUY

- MSFT: Weathering the economic storm -- reiterating BUY
- Despite the decline in 2Q09 earnings, we believe that Microsoft has performed well in a difficult economic environment. The company has taken aggressive steps to reduce operating costs, and should save $700 million this year from its planned headcount reduction.
- In light of our reduced revenue forecast for FY09, we are cutting our full-year EPS estimate by a penny to $1.99, but remain above the consensus estimate of $1.95.
- For FY10, we now expect EPS of $2.26, down from a prior $2.34. Our five-year earnings growth rate estimate remains 10%.
- We believe that MSFT remains attractively valued at current levels and are maintaining our BUY rating with a revised target price of $24.

INVESTMENT THESIS

As we expected, BUY-rated Microsoft Corp. (NGS: MSFT) has performed well considering the difficult economic environment, and has taken aggressive steps to reduce operating expenses. The company is cutting 5,000 positions, which should lower operating costs by $700 million for the remainder of FY09. We believe that MSFT remains attractively valued at current levels and are maintaining our BUY rating with a revised target price of $24.

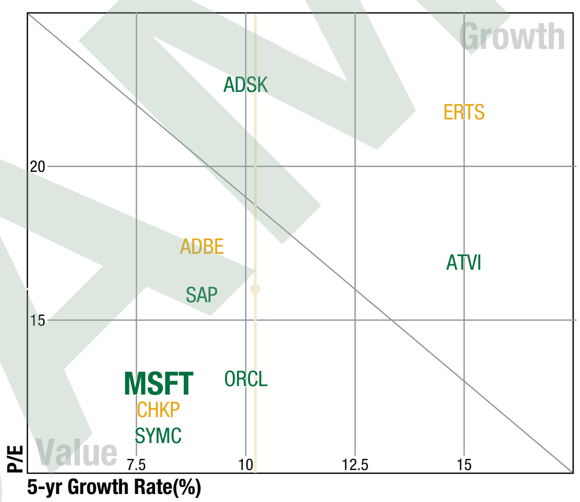
RECENT DEVELOPMENTS

Microsoft recently posted 2Q09 earnings of $4.17 billion or $0.47 per share, down from $4.71 billion or $0.50 per share a year earlier. We believe that the second-quarter results reflect the weak

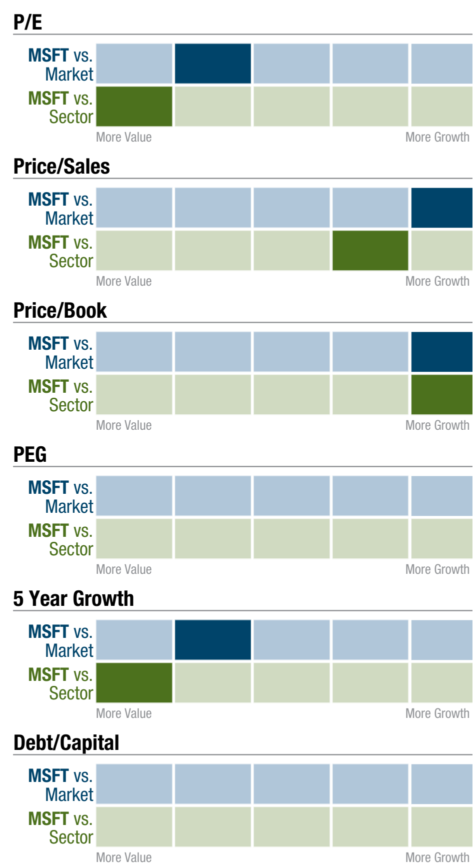
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MSFT versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how MSFT stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MSFT might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
MSFT	**Microsoft Corp**	**200,778**	**8.0**	**13.0**	**25.9**	**13.2**	**BUY**
ORCL	Oracle Corp	102,999	10.0	13.1	24.1	8.9	BUY
SAP	SAP ADR	46,248	9.0	15.8	—	33.7	BUY
ATVI	Activision Blizzard Inc	14,772	15.0	16.9	1.7	14.7	BUY
ADBE	Adobe Systems Inc	13,897	9.0	17.4	21.9	13.8	HOLD
SYMC	Symantec Corp	12,431	8.0	11.3	-109.4	5.9	BUY
ERTS	Electronic Arts Inc	6,545	15.0	21.8	-25.8	37.6	HOLD
CHKP	Check Point Software Teches Lt	4,678	8.0	12.1	40.2	10.9	HOLD
ADSK	AutoDesk Inc	3,885	10.0	22.7	2.7	45.3	BUY
Peer Average		**45,137**	**10.2**	**16.0**	**-2.4**	**20.5**	



Please see important information about this report on page 5

Analyst's Notes...Continued

state of the economy rather than a decline in company fundamentals. Revenue increased 6% year-over-year to $16.6 billion. Reflecting increased development and marketing expenditures to build its online services businesses, Microsoft's operating margin narrowed to 35.7% in 2Q09 from 39.6% in 2Q08.

EARNINGS & GROWTH ANALYSIS

Microsoft has discontinued revenue and EPS guidance, citing a volatile macroeconomic environment. Looking ahead, we expect global software investment spending to decline at about double the pace of global economic activity. We also expect demand to fall first in developed markets, followed by declines in emerging markets. That said, not all enterprise software companies are affected in the same manner, and Microsoft's revenue base is smoothed by long-term contracts with enterprise customers. While businesses will undoubtedly cut discretionary spending, we believe that IT investments that reduce operating costs will remain attractive.

In light of the deteriorating global economy, we are lowering our revenue growth estimate to 7% from 9% for the second half of FY09. Our margin expectation remains unchanged, as we expect a slightly higher cost of revenue to be offset by the company's headcount reductions. Given our reduced revenue forecast, we are cutting our FY09 EPS estimate by a penny to $1.99, but remain above the consensus estimate of $1.95. For FY10, we now expect EPS of $2.26, down from a prior $2.34. Our five-year earnings growth rate estimate remains 10%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for Microsoft is High, the top of our five-point scale. The company finished 2Q09 with cash and short-term investments of $20.7 billion, long-term investments of $3.9 billion and working capital of $14 billion. Long-term liabilities at the end of the quarter totaled $7.5 billion. Operating cash flow for 2Q09 increased 26% year-over-year to $5.78 billion. After subtracting capital expenditures of $842 million, free cash flow amounted to $4.9 billion.

During 2Q09, Microsoft used $2.8 billion to repurchase shares and $1.1 billion to pay dividends. We expect the company to pay dividends of $0.44 per share in FY09 and $0.46 per share in FY10.

RISKS

Investors in Microsoft face potential losses if the company's operating performance falls short of expectations. Risks include the potential for an unexpected downturn in global software investment spending; security vulnerabilities in the company's products; the rapid adoption of Linux and/or other open-source code software applications; increased competition in the internet space; and legal risks. Another risk is management's ability to execute its business plan and deliver new products on schedule. Microsoft's shares, which are a prominent component of major indices, are also vulnerable to market risk.

In the case of the Xbox 360, Microsoft faces an uphill battle against market leader Sony and a resurgent Nintendo. Highly aggressive pricing from both Sony and Nintendo may hamper Microsoft's effort to generate acceptable long-term profits in this area.

In the internet space, the company faces increased competition from Google and Yahoo! And the competitive threat goes beyond the battle for online advertising revenue. Google, Yahoo! and other competitors may continue to provide internet-based software applications, possibly eroding the importance of Microsoft's underlying operating system and Office products over time.

VALUATION

Factoring reduced revenue and earnings estimates into our discounted cash flow model, we are lowering our fair value estimate for MSFT to $24 from $31. Key assumptions in our DCF model include a long-term revenue growth rate of 5% and a long-term operating margin of 36%. Based on four-year historical multiples of revenue, earnings and cash flow, we expect MSFT shares to trade in a range of $17-$25 over the next 12 months, with an average price near $21.

On January 26 at midday, BUY-rated MSFT traded at $17.52, up $0.32.

Please see important information about this report on page 5

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Analyst Report Data Dictionary

For important information (including data definitions) about the Argus and Mergent data used in this report, please view the Argus Analyst Report Data Dictionary (PDF) at www.ArgusResearch.com/DataDictionary.

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