

In the news:

Microsoft's Massive Share Repurchase

In July 2006, Microsoft announced a substantial share buyback program, consisting of a \$20 billion modified Dutch Auction and another \$20 billion in ongoing share repurchases expiring in June 2011. At the time of the announcement, July 21, 2006, the stock had just recently hit a 5-year low on June 9, trading at levels not seen since 2002 after the bursting of the tech bubble. Most analysts and investors were frustrated with the companies' lack of earnings growth, even though the company showed stronger revenue growth in gaming and internet advertising and was just ready to release a brand new operating system, Vista and a new Microsoft Office bundle, its first since 2003. Pessimism was running high, but Microsoft had an ace up its sleeve, the vast cash horde it had accumulated over its many years of profitability. As of June 30, 2006, the company had \$34.16 billion in cash and short term investments. Knowing that its shares were at depressed levels and that it had a ton of cash, the company invested in itself.

Immediately upon announcement of this massive buyback the stock traded well into its MDA range rising soon thereafter to \$24.70, a rise of 8%, right to the top of its MDA range. Most investors evidently felt that 1.) they were not going to part with their shares at such depressed levels, and 2.) the sheer scale of such a buyback would insure that the low share price levels would more than likely be the lowest levels for some time.

The results of the modified Dutch Auction were that 154,517,593 shares would be purchased at the top price of \$24.75, for a total of \$3.8 billion. The company then elected to take the remainder, \$16.2 billion and add it to the \$20 billion ongoing share repurchase previously announced. The stock price has never looked back.

Fast forward to today. In their most recent earnings announcement in October, the company has announced strong revenue growth of 27% and operating income growth of 30% in their most recent quarter, compared to last year at the time the modified Dutch Auction and the additional buyback were announced.

The company has not been sitting idly by in regards to their ongoing share repurchases either. Microsoft has purchased between 200 million and 250 million shares in every quarter of their fiscal year 2007. As of the end of September 30, 2007, the end of their fiscal year, only \$12.8 billion of the \$36.2 billion authorized remained. \$23.4 billion worth of stock has been repurchased in the past 13 months.