

**Microsoft Second Quarter 2012 Prepared Remarks**

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**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

I’m pleased with our performance this quarter. Despite a challenging PC market, we delivered solid financial results. We saw strong demand for our business products and services, and had a record holiday season driven by the unique entertainment experience we have built with Xbox 360.

This quarter, the strength of our product portfolio enabled us to grow revenue 5% to $20.9 billion. Combined with our ongoing operating expense discipline, even as we prepare for a big launch year, we delivered record earnings per share of $0.78. Similar to prior periods, we saw broad-based growth across geographies, with particular strength in emerging markets.

Within our segments, the Microsoft Business Division had another good quarter as businesses and consumers around the world look to Microsoft to meet their productivity needs. Six quarters post launch, Office 2010 continues to exceed our expectations with increased consumer and business PC attach worldwide. We saw double-digit revenue growth across our key business application workloads including Exchange, SharePoint, Lync, and Dynamics CRM and ERP.

As businesses large and small look to the cloud to lower costs and enable new ways of supporting a distributed workforce, they are turning to Microsoft. With Office 365, we give customers powerful productivity and collaboration tools at great value. Today, more than 100,000 businesses have made the commitment to our online services. Whether on premise or in the cloud, Microsoft remains the top choice for productivity.

The Server & Tools business delivered another strong quarter as we continue to execute on our strategy of cloud-optimizing every business.

CIOs are increasingly turning to our business infrastructure offerings, including Windows Server, Hyper-V, and System Center, as they look to Microsoft for the security, flexibility, and manageability they need to build world-class private clouds. This quarter marked the ninth consecutive quarter of double-digit growth for Windows Server Premium revenue and the eleventh quarter of double-digit revenue growth for System Center.

On the data platform, we remain the worldwide unit share leader with SQL Server. Consistent with our strategy, we are growing our revenue share with marquee customer wins on mission-critical workloads and business intelligence capabilities.

This year, we will bring to market the next generation of our server offerings, including Windows Server 8, SQL Server 2012, and System Center 2012 which deepen and broaden our platform for the private cloud. Combined with the power of Windows Azure for the public cloud, our offerings give enterprises the identity, virtualization, application development and management tools they need to efficiently progress in to the new era of hybrid IT.

The PC market was challenged this quarter, with particular softness in the consumer segment. However, Windows 7 momentum in the enterprise continued and today, over 1/3 of enterprise desktops worldwide are on Windows 7. And with the future release of Windows 8, we believe the ecosystem will benefit from the new range of capabilities and scenarios that it enables.

In search, we saw improvements in RPS this quarter as we partnered closely with Yahoo! to address the monetization challenges of the combined ad platform. We are pleased with the progress and are working hard to continue that trajectory.

In the year since Windows Phone launched, we have worked diligently alongside our partners, including Nokia, to bring a differentiated experience to the mobile platform. Earlier this month at the Consumer Electronics Show, we showcased the latest innovations in Windows Phone to very positive reviews. With these new devices, we are increasing the choices for consumers around the world to find the Windows phone that is exactly right for them.

As I mentioned, Xbox 360 had a record holiday season as we continue to differentiate home entertainment. Whether it’s using Bing voice search on Xbox to quickly find the movies and shows you want to watch, or enabling more interactive TV as we demonstrated at CES with Sesame Street and Elmo, Xbox and Kinect are bringing together our technologies to redefine the living room experience.

Beyond gaming and entertainment, with the Kinect for Windows program which launches February 1st, our technology will further innovation and creativity across industries.

During the quarter, we started the integration of Skype’s world-class communication products and global-networked platform into our portfolio of products and services. While it is still early, we are excited by the momentum we have seen thus far, and by the opportunities to redefine social and real-time communications for consumers and businesses around the world.

As I have consistently mentioned, operating expense management is a priority for Microsoft. Reflecting our ongoing discipline and prioritization of investments, operating expenses grew just 4% this quarter.

In summary, we delivered solid financial results despite a challenging PC market. The strength of our product portfolio drove solid top-line growth, we delivered record earnings per share, and we are well positioned for future growth.

With that, I’m going to hand it back to Bill to provide more details on our results.

**BILL KOEFOED, GENERAL MANAGER INVESTOR RELATIONS:**

Thanks Peter. First I am going to review our overall results and then I’ll move on to the details by business segment.

Revenue for the quarter was a record $20.9 billion, up 5%, or $900 million year over year. Operating income was $8 billion, cash flow from operations was $5.9 billion and earnings per share was $0.78.

Foreign exchange did not materially impact our net income this quarter.

Enterprise demand remained strong as our customers continued to add both products and seats to their enterprise agreements and our renewal rates remained solid. At the end of the quarter, unearned revenue was $15.3 billion, and our contracted not billed balance was approximately $19 billion.

Turning to the PC market, as I mentioned last week, it was a challenging quarter for the industry. Factors such as the flooding in Thailand, macroeconomic uncertainty and competing form factors resulted in an overall market that we estimate declined 2-4%. In the PC market, it appears that the impact of the hard drive supply-chain constraints were not limited to a specific region or OEM-type.

While absolute volumes were impacted, we did see the following trends continue:

PC sales to emerging markets outpaced developed markets.

The business PC refresh cycle continued with business PC growth of 2%.

The decline of netbooks negatively impacted consumer PCs which were down 6%. Netbooks, which a year ago represented about 8% of the PC market, now represent only 2%. Excluding netbooks, consumer PCs grew 2%.

Now, we’ll move on to the results for the Windows and Windows Live Division, where revenue was down 6%. As usual, you‘ll find the OEM revenue bridge in our earnings slide deck. The primary differences between the PC market and Windows revenue were the continuing growth of emerging markets faster than developed markets and inventory draw down from the prior quarter.

We have now sold 525 million Windows 7 licenses since launch, and as Peter mentioned, we are seeing sustained momentum on enterprise deployments. In December, we announced that Windows 8 Beta would be available in late February and we also previewed the Windows Store, which will be the hub where users can discover and download applications. For developers, the Windows Store represents a significant opportunity given its broad reach, flexibility, and favorable economic terms.

Now, we’ll move on to the Microsoft Business Division where revenue grew 3%. Recall in Q2 last year that we recognized $224 million of revenue for the Office 2010 Technology Guarantee Program, and if you exclude that, revenue grew 7% for the quarter.

Consumer revenue declined 17% year over year, and declined 2% when factoring in the impact of the technology guarantee program that I just mentioned. The outperformance relative to the overall PC market was driven by attach gains which continue despite being 18 months since the launch of Office 2010.

Business revenue grew 9% and within business, multi-year licensing revenue grew 12% and transactional revenue grew 3%, driven by strong attach worldwide.

We continued to see strong growth in our productivity solution offerings. Lync, SharePoint and Exchange each grew double digits. We’ve previously shared with you the opportunity that we see for unified communications, and we are beginning to realize that potential. Lync revenue grew over 30% as customers such as Volkswagen and LA Fitness chose Microsoft to be their voice and video solution.

This quarter Office 365 became the first major cloud provider to comply with leading EU and US standards for data protection. Meeting these high standards enables businesses to more fully realize the potential of the cloud. We also had our first major service enhancement to Office 365 which extends the company’s next-generation cloud productivity service to reach businesses in 22 additional markets. During the quarter, companies such as JetBlue, Campbell Soup, Patagonia and Wunderman chose Office 365 to enable their employees and customers to work together in the cloud. We are also pleased with our momentum in cloud services for education, where we now have more than 22 million users, a 100% increase over the prior year.

Our Dynamics business continued its momentum where revenue grew double digits both in CRM and ERP. Dynamics CRM grew over 30%. Dynamics CRM had important competitive wins this quarter against Salesforce.com and Oracle, such as Safety-Kleen Systems and the American Heart Association. The common theme amongst switchers was that Dynamics CRM has a familiar user interface which improves productivity while delivering lower operating costs than the competition.

Now let’s move on to Server and Tools where revenue grew 11%, driven by multi-year license revenue that was up mid-teens and Enterprise Services.

We saw broad based strength across our products. In our data platform business, SQL Server grew low double digits, outpacing industry growth due to the strength of our premium editions. This quarter we saw competitive database wins against Oracle, such as UK based retailer The Co-Operative Group, which switched to SQL Server because of its advantages in business intelligence, security, flexibility and cost. We also saw strong market anticipation for SQL Server 2012, with over 100,000 downloads in the two months since the release candidate was made available.

In the private cloud, Windows Server Premium revenue grew high-teens, and System Center grew over 20%. On Tuesday we announced System Center 2012 which brings many of our Azure cloud capabilities to an integrated private cloud management solution for the first time. We also announced great competitive wins against VMware with accounts such as T.Rowe Price, Unilever and Lufthansa Systems. System Center 2012 integrates eight separate component products into one unified solution, streamlining installation and reducing the time it takes to deploy from days down to hours. Additionally, we provided a clear path to Windows Azure for customers who are looking for a public or hybrid cloud solution.

In the public cloud, our December release of Azure enhanced ease of use and simplified deployment, as well as delivered new open source capabilities with Hadoop support. We are seeing strong growth in the number of large customers signing up to use Azure. One such example is Sony Picture’s Crackle online content service, which has moved to Azure due to the cost savings, agility and performance that it provides.

Now I’ll move to the Online Services Division, where revenue grew 10% and operating performance improved for the second consecutive quarter. Online advertising revenue was up 13% driven primarily by search. The increase in search revenue was driven by both rate and volume improvements. Bing’s US organic market share ended the quarter at 15.1%, up 40 basis points this quarter and over 300 basis points year over year.

Now let me move to the Entertainment & Devices Division where revenue grew 15%. According to third-party research, Xbox was the number one console in the US during calendar year 2011, and had 46% of US console sales in December. During the quarter, we sold 8.2 million consoles, which was up over 25% despite a soft gaming console market. Kinect continues to impress customers, with 18 million Kinects having been sold since launch just over one year ago. Xbox LIVE members grew 33%, with 40 million users now enjoying Xbox LIVE. In December, Xbox released the new Metro-style dashboard and added dozens of new entertainment applications and content partners to the platform. While it is early, engagement has been quite impressive as the number of people using entertainment apps from November to December increased by almost 50%.

We continue to make progress with Windows Phone. During the quarter, Nokia began to bring some of their great new devices to market, which adds to the growing list of compelling phones available from our OEM partners. At CES the talk of the show were the new LTE Windows Phones from Nokia and HTC that will be available on AT&T in the coming months, joining the Lumia 710 which is now available on T-Mobile.

In October, Skype officially joined Microsoft. This quarter, over 200 million people used Skype to communicate with family, friends and businesses. For calendar year 2011, over 300 billion minutes of calls were made over the Skype network, an increase of 50%. The teams are working closely on the integration across Microsoft and we will share more as we get further along the roadmaps.

Now, let me cover the remainder of the income statement.

Cost of goods sold increased 17% driven by the following:

First, we saw an increase in costs resulting from strong Xbox console sales and increased Xbox royalties.

Second, Enterprise Services continued to grow rapidly; and

Third, online services and traffic acquisition costs increased.

Operating expenses were $7.3 billion, an increase of 4%, primarily due to compensation, legal expenses, and Puerto Rican excise taxes.

This quarter we returned $2.7 billion to shareholders in buybacks and dividends.

So in summary, we saw strong demand from our business customers and our Xbox platform delivered a record holiday season. We were able to navigate a challenging PC market to deliver solid top line and earnings per share growth. With that I will hand it back to Peter, who’s going to discuss our business outlook.

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

Thanks, Bill.  For the remainder of the call, I’ll discuss our expectations for the third quarter and full fiscal year.

Beginning with the Windows and Windows Live Division, we expect revenue to continue to be impacted by market dynamics similar to the past several quarters - PC growth in emerging markets will outpace developed markets, and business PC growth will outpace consumer PC growth. We also expect the hard disk drive shortage to continue to challenge the PC market through at least the next quarter.

Turning to the Microsoft Business Division.  For the third quarter and full fiscal year:

Transactional revenue, approximately 40% of the division’s total, should lag the overall PC market reflecting a higher mix of PC shipments to emerging markets; and

Multi-year licensing revenue, approximately 60% of the division’s total, should grow low double-digits.

Moving to Server and Tools.  Approximately 30% of the division’s revenue comes from transactional licensing, 50% from multi-year licensing, and 20% from enterprise services. For the third quarter and full fiscal year:

We expect transactional revenue to generally track with the hardware market;

Multi-year licensing revenue should grow low double-digits; and

Enterprise Services revenue should grow high teens.

Turning to the Online Services Division.  We are focused on improving the financial performance of our search business and are looking for ways to increase RPS and streamline costs.  For the third quarter and full fiscal year, we expect revenue to show year over year improvements in RPS.

Moving on to the Entertainment and Devices Division. We continue to be very pleased with our share of the worldwide console market. However, the console market is softer than we previously expected and as a result, we now expect revenue to grow high single-digits for the third quarter and mid-teens for the full fiscal year.

Switching to overall cost of goods sold for the company.  COGS growth will continue to be impacted by the changing mix of revenue as we have seen the past few quarters. We expect COGS to grow about 8 - 10% for the third quarter and mid-teens for the full fiscal year.

As a result of our focus on operating expense management, we are lowering our fiscal year guidance. We now expect operating expenses to be $28.5 to $28.9 billion for the full fiscal year, including the impact of Skype. This represents year over year growth of 5% to 6%.

We expect our effective tax rate to be 19 to 21% for the third quarter and full fiscal year, and we still expect capital expenditures to be about $2.5 billion for the full fiscal year.

For the third quarter, unearned revenue should roughly follow historical seasonal patterns. We continue to expect unearned revenue at the end of the fiscal year to grow low double-digits compared to the prior fiscal year.

As we look forward, we have the strongest product pipeline we have ever had. We’re pleased with the early enthusiasm around our upcoming wave of products that enable CIOs to cloud-optimize their business. And we are excited by the opportunity to unify the consumer experience across our phones, PCs, tablets and TVs with our new Metro-style design.

And with that, I will turn it back to Bill and we will take some questions.

**BILL KOEFOED, GENERAL MANAGER INVESTOR RELATIONS:**

Thanks Peter. We want to get questions from as many of you as possible, so please stick to just one question and avoid long or multi-part questions.

Operator, please go ahead and repeat your instructions.

(Operator Direction.)

**ADAM HOLT, Morgan Stanley:** Hey, guys. Thanks for the question.

My question is about the material improvement in OSD margins quarter on quarter. It looks like you held firm on expenses year on year. Does that reflect a new philosophy around that business in terms of driving profitability, and can you update us on where you think you are on the RPS improvement? Thank you.

**PETER KLEIN:** Thanks, Adam.

As we've been saying, the key to profitability in that business is to grow our top line because it scales really well. The marginal impact of that is very high, because it's a high fixed cost business. We have been, as we've been growing share, and improving our RPS, especially this quarter, holding the line on operating expenses, and merely streamlining.

The most important thing long-term, as we've said, is to continue to grow that share, and grow the revenue per search. So, we're pleased with that trajectory, and want to keep on that. And we are watching the costs very carefully so that that revenue marginally goes to the bottom line, and that's what you saw happen this quarter, and that's the trajectory we hope to stay on.

**BILL KOEFOED:** Operator, next question, please.

(Operator Direction.)

**WALTER PRTICHARD, Citi:** Hi, thanks. Just wondering on the EDD side, it looks like you called out the Nokia payments as part of COGS as a driver, and I'm wondering, you've been pointing us to mix of revenue types as mainly the driver there of COGS. Could you help us out with how meaningful those payments were, and how should we expect those to continue to track as we move into future quarters?

**PETER KLEIN:** Yes. It's part of it. There were several things impacting the gross margins in the E&D business. Obviously one is just the volume of consoles and the mix of consoles, high end versus low end; the mix of software, whether it's first party or third party, that has a different margin characteristic; and so that's the biggest piece in E&D. Then, the Nokia piece is also another piece that plays into that. The biggest piece is the mix of business in the E&D business, and then Nokia is also another driver of that.

**BILL KOEFOED:** Operator, next question, please.

(Operator Direction.)

**RICK SHERLUND, Nomura:** Thanks. On the hard drive shortage issue, I spoke with Gartner on Monday, and they were looking for PCs down 1 percent. You guys have said down 2 to 4. And they helped reconcile that, suggesting that there were some issues in terms of the pipeline of products, and if the inventories are reduced in the pipeline, that might reconcile why the two of you are viewing the industry somewhat differently. I'm just curious if you think that's going to continue into the next quarter. I know we're going to see an impact in this next quarter, I'm just curious whether you and Gartner might be more in line with each other going forward, or if there is more inventory reduction in that pipeline that might be an ongoing impact above and beyond perhaps what we're seeing from the numbers that Gartner and IDC are giving us?

**PETER KLEIN:** That's impossible to say, Rick. You know, I say, obviously for this quarter, we obviously are very confident and comfortable with the estimate. As we said during the remarks, we expect the impact to continue on at least through the next quarter. And I think the best thing to do is, at the end of that, we'll probably all have a better view, and we kind of assess where we are and what it looks like going forward.

**BILL KOEFOED:** I would say just generally on the inventory, as well, obviously as I said in my remarks, there was an inventory draw down to end the quarter. I think there was an overall, I think both IDC and Gartner have also talked about the fact that the overall supply chain for PCs is obviously leaner than it was three months ago. So, we'll have to see how fast kind of people ramp back up, how fast the PC ecosystem rebounds, and that will obviously impact, as Peter mentioned, inventories at the end of the quarter as well. So, a good question.

Operator, next question, please.

(Operator Direction.)

**HEATHER BELLINI, Goldman Sachs:** Hi. Thank you.

I was wondering, Peter, if you could talk a little bit about which businesses are the furthest along regarding their COGS transition as you move more and more of your revenues to the cloud, if you could kind of rank order them for us?

**PETER KLEIN:** Yes. I would say Office 365 is really far along. We've had a lot of good momentum, and obviously one of the things that drives you up the sort of margin scale is getting the economies of scale, the volume, and we talked about some of the numbers, the 100,000 businesses, the great sort of demand we've had for sort of the Office Business all up, including Office 365. So, I would say that's probably farthest along, followed closely by Windows Azure as we sort of add new enterprise customers, new ISVs, new developers to that. Certainly, Office 365 is accelerating up the ramp.

**BILL KOEFOED:** And the other thing that I would add is, obviously OSD will call it kind of our largest cloud property. And as Peter mentioned earlier, I think in one of the questions, you know, it obviously has achieved scale, and as a result kind of every incremental kind of search ends up becoming 100 percent margin. So, we are at different stages, I think, within some of eh different business products, but certainly around running a cloud infrastructure we feel like we've got quite a good handle on that primarily from our search business.

Operator, next question, please.

(Operator Direction.)

**JOHN DIFUCCI, JPMC:** Thank you.

My question essentially follows to Rick, it has to do with the Windows OEM revenue bridge. I'm just curious, on some of these items how they sit today. For instance, and I believe, Bill and Peter, you take account for those inventory changes in the Windows attach and inventory line. And last quarter it added about 5 percent to the quarter, this quarter it was a 2 percent hit, and then, Bill, you noted that the inventory draw down had an effect there.

Can you give us a sense of where you think channel inventories are today relative to what you might call normal levels? And then also just quickly on that last line in that bridge, the OEM revenue adjustment, when is this stuff going to stop being negative? It's been slightly negative for quite some time now, and shouldn't it have stopped like three years after the Vista launch, because wasn't it related to XP and having Internet Explorer as part of that as a meaningful part of that versus for Vista?

**PETER KLEIN:** Yes. We'll take the second one first, next year that should go away. So, to answer your question, yes, that's what you would expect and that's what will happen.

On the first question on inventory, in any given quarter inventory is going to sort of go up and down depending on what's going on in the channel. As you noted, sometimes it's a tailwind, sometimes it's a headwind like it was this quarter. It's hard to say precisely where it stands and what it's going to be like next quarter. We will sort of look at it when we get there.

**BILL KOEFOED:** Operator, next question, please.

(Operator Direction.)

**MARK MOERDLER, Sanford Bernstein:** Thank you.

Question for you, how much of the year over year decrease in the consumer revenue on the Office product is due to licenses specifically included in OEM sales of PCs as compared to standalone Office sales to the consumer market?

**BILL KOEFOED:** It's mostly associated with OEM. I mean, the driver that we use for that part of the MBD business is specifically tied with the PC unit growth of consumers. And so, as I mentioned in my remarks, we actually outperformed that. But that's the best driver. It's not complete, but that's the best driver of trying to be able to predict or interpret that result.

Next question, please.

(Operator Direction.)

**PHILLIP WINSLOW, Credit Suisse:** Hi, guys. Good quarter. I've just got a question on the Windows Division. When you think about the impact of Windows 8 coming out, obviously the second half of this year, how do you think that's going to impact build plans amongst the OEMs, but also inventory levels when we get to the summer? Thanks.

**PETER KLEIN:** Probably premature to talk about that. I think we need to get closer to it. So, the thing I would say is, just from an ecosystem perspective, there's an incredible amount of excitement and innovation going on across vendors, like the chip vendors, and all the OEMs. You actually see that starting today with the ultra-books that you're seeing with Windows 7. And so the fact of the matter is, there's a ton of innovation happening today for Windows 7. There's a ton of excitement for enterprises for both Windows 7, and looking forward to Windows 8, and what that gives them in terms of an end user experience, and IT manageability. So, I don't think about it so much as looking forward. There's a ton of innovation going on today. You see it in the ultra-books, you see in both the ARM and x86 chip vendors are doing. And so that sort of continues, and is sort of on the regular pace.

**BILL KOEFOED:** Operator, next question, please.

(Operator Direction.)

**KASH RANGAN, Merrill Lynch:** All right. Thank you very much.

If you look at the last few quarters, we've been through tough comps, the slightly lower revenue growth rate, and also the mix issues that have caused the margins, the gross margins to go down. As you come out of this tough cycle and start to get into the next set of launches, should we think about the gross margins as starting to go in the other direction just based on what looks to be better mix between your Windows, the typical software businesses, as you get into a launch year. Part of me says, maybe the margins are bottoming here, because I completely respect the fact that you've got other mix issues that are more longer term, as you have the Entertainment and Devices Business, the costs there, et cetera. But shouldn't margins start to go back up as you head into launch year? Thanks.

**PETER KLEIN:** Thanks, Kash.

Yes, certainly margins are a function of mix, and to the extent there's a higher mix, and higher margin products, that will have a positive impact on margins, and it's not unrealistic to think that in a launch year you can see higher growth in higher margin products. So, it will depend on what the mix is, but I think it's a very plausible scenario.

**BILL KOEFOED:** Operator, next question, please.

(Operator Direction.)

**BRENDAN BARNICLE, Pacific Crest Securities:** Thanks so much, guys.

I was wondering if you could give us any color on what you saw geographically in terms of growth trends, and in particular any in particular in Europe or Asia that was weak or strong?

**PETER KLEIN:** Yes. We saw particular strength in emerging markets, particularly what we call the BRIC markets, Brazil, Russia, India, and China. That was really a driver of growth for us, and that's exciting for us, because we've got strong and growing positions there, and that's where kind of disproportionate economic growth is happening sort of worldwide. But, as Bill mentioned, and as I mentioned, we saw broad-based strength and demand across geographies, but with particular strength in emerging markets.

**BILL KOEFOED:** Operator, next question please.

(Operator direction.)

**ED MCGUIRE, CLFA:** Hi, good afternoon. You called out 100,000 businesses that are engaged in online services, could you comment on the impact that this transition is having on recognized revenues versus unearned and contracted not billed?

**PETER KLEIN:** Yes, it's interesting, subscription businesses aren't that much different from our existing multi-year licensing business in the sense that it's sort of billed up front and then recognized over time, just like our multi-year licensing agreements. And so it really doesn't have a significant impact on the sort of flavor, or character of our revenue recognition, or unearned revenue.

**BILL KOEFOED:** Operator next question, please.

(Operator Direction.)

**BRAD REBACK, Oppenheimer:** Great, thanks a lot. Peter, the business PC growth rate was down about 300 basis points sequentially, was that all economic or hard disk drive?

**PETER KLEIN:** Yes, the one thing I'd say is the overall business environment sort of remains very strong for us. And so all our macro-indicators for business spending on IT remain good, unearned revenue, our renewals for enterprise licensing agreements and enterprise deployments of Windows 7. In terms of PCs as we said, there is still growth and we're still sort of in the refresh cycle. I do suspect that some of that is due to supply chain and maybe a small amount due to macro, but it's small.

**BILL KOEFOED:** Operator, next question please.

(Operator Direction.)

**GREGG MOSKOWITZ, Cowan and Company:** Okay, thanks and good afternoon. Peter, you mentioned ultra books earlier, and on the heels of CES we're going to be seeing a lot more of them hit the market. Can you talk about what this means for Microsoft and more importantly when might ultra books be ready for the mass market, from a cost perspective?

**PETER KLEIN:** What it means, for me what it represents is sort of the excitement and the opportunity long-term in building compelling devices for consumers and businesses around the world. There's so much innovation still to get done, there's so many new form factors, so many new use cases, and I think it's great to see what the ecosystem does when it works together, as I mentioned before. You know, in terms of the sort of price points in mass market, we'll just sort of wait and see how that evolves before commenting on that.

**BILL KOEFOED:** Operator, next question please.

(Operator direction.)

**TIM KLASSELL, Stifel Nicholas:** Yes. Good afternoon everybody, just a question on the EDD. You mentioned a little softening in the console sales. Do you think that's due to mix shifting towards lower-priced units, or is that business just being more seasonal? When we model that going forward should we make that a more seasonal, holiday type of an event than we currently do?

**PETER KLEIN:** You know, in terms of the over ‑‑ first of all, for our console business we feel really good about our sort of relative position in the market and our ability to take share and have a really strong competitive position. In terms of the seasonality, I don't think there's anything that indicates it's sort of more or less seasonal than we've seen in the past. Like many consumer businesses like this, it will always be relatively stronger at the holiday season. And in terms of some of the mixes, some of it is a function of product cycle, if you think about the Kinect sensors and how we sold those into our installed base, and now we're selling more bundles, those kinds of things. The seasonality hasn't materially shifted.

**BILL KOEFOED:** Obviously when big title games come out, that tends to drive kind of a big cycle. So, that's something we need to pay attention to around this business.

Okay. Operator, we're going to take one more question, please.

(Operator direction.)

**ROBERT BREZA, RBC Capital Markets:** Hi, thanks for squeezing me in. Bill, maybe could you just comment a little bit back on the ‑‑ I think it was a Credit Suisse analyst talking about the Windows 8 release at the end of February. Given the complexity you're adding into Windows 8 with mobile, et cetera, making that kind of a cross-platform experience. I mean, do you expect that to kind of delay the traditional milestones, or how should we think about Windows 8 going forward? Thanks.

**BILL KOEFOED:** I wouldn't think about kind of traditional milestones. I would say one of the things that Tami talked about at CES last week was just how important it is for us to work on and with developers to create a really vibrant developer ecosystem. And so one of the things we also talked about with the beta release was the Windows store, really making sure we're going to have quite a few apps that are going to be up on the Windows store at beta. Obviously, one of the things she and Steve both talked about last week is that any Windows 7 PC could run Windows 8, but obviously there will be kind of some kind of new and interesting form factors that are going to come out here as we get further on down the road.

So, I don't know that I would think about it, except as we said earlier, we're on track, we feel really good about where we are on the product, and this next super-important milestone is the beta release and having a really great developer ecosystem to kind of surround that. So, great question.

**ROBERT BREZA:** Thank you.

**BILL KOEFOED:** Okay. So, that will wrap up the Q&A portion of today's call. We look forward to seeing many of you at the numerous conferences in which we're going to be participating at this quarter. For those of you unable to attend those events in person you will be able to follow our comments at Microsoft.com/investor. Please contact me, or anyone on my team, if you need the additional details.

Thank you, again, for joining us today and have a great afternoon. Bye-bye.

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