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**Microsoft Third Quarter 2013 Prepared Remarks**

On our website, Microsoft.com/investor is our financial summary slide deck, which is intended to follow our prepared remarks, and provide the reconciliation of differences between GAAP and non-GAAP financial measures.

As a reminder, we will post today's prepared remarks to our website immediately following the call until the complete transcript is available. Today's call is being webcast live and recorded. If you ask a question, it will be included in our live transmission, in the transcript, and any future use of the recording. You can replay the call and view the transcript at the Microsoft Investor Relations website until April 18, 2014.

During this call, we will be making forward-looking statements that are predictions, projections, or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release, in the comments made during this conference call, and in the risk factor section of our Form 10-K, Forms 10-Qs, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Before I hand the call over to Peter, I’d like to remind you that all growth comparisons we make on the call today will relate to the corresponding period of last year. Also, unless specified otherwise, all impacted numbers for the current quarter have been adjusted for the cumulative effect of the revenue deferrals and recognition related to Windows, Office and Xbox video games, and the expense related to the non-tax deductible European Commission fine. Details of the adjustments can be found in our financial summary slide deck and press release.

And with that, I'll turn it over Peter.

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

Thanks, Chris, and good afternoon, everyone.

Before I get into my comments about the quarter, let me say a few words about the CFO transition we announced today. As we all do throughout our careers, at various times we assess our personal and professional goals and priorities. Sometimes we change jobs, sometimes we change companies, and sometimes we step back to focus on family and other personal goals. As we approach the end of our fiscal year, for me personally, it’s a good time to re-focus my priorities and spend time with family in a way I haven’t previously had the chance. I feel great that the company is on a path to an exciting future in devices and services, and I couldn’t be more proud of and confident in the finance organization. I look forward to working with my successor on the transition, including getting out and meeting with many of you. I have truly enjoyed working with all of you.

And now on to the quarter.

I’m pleased to report we drove revenue and earnings per share growth of 8%, even as we navigate an evolving device market. Our results reflect our diversified portfolio as well as the investments we have made in key strategic areas.

During the quarter, we launched the new Office, our enterprise cloud services continued to gain traction, and we continued to take market share in the data platform. Before I dive into more details on our progress in these areas, I want to address what’s top of mind for many of you, which is our Windows business.

There is no doubt the device market is evolving. Consumers and businesses are increasingly shifting their focus to touch and mobility and as a result, they want touch-enabled computing devices that are ultra-thin, lightweight, and have long battery life. While Windows revenue has been impacted by the transition from the traditional PC to a new era of computing devices, the overall addressable markets are growing, and we are excited by the opportunities ahead of us.

We built Windows 8 with touch and mobility at the center of the experience which positions us well in this new era. However, the transition is complicated given the size of our hardware and software ecosystem. We still have an immense amount of work to do, yet we feel good about the foundation we have laid, and are optimistic about the long-term success of Windows.

So I want to take some time now to be clear about where we are in this journey and what we are doing to help drive this change.

With Windows 8, we are setting a new, accelerated pace for updates and innovations as we focus on making the Windows experience richer and better. Since launch, we have delivered several important updates to improve our mail, storage, search, music, and video services. During the quarter, we also added to the Surface family of devices with Surface Pro which combines the performance capabilities of a PC with a modern tablet design.

Looking ahead, we will release the next version of Windows, codenamed “Windows Blue”, which further advances the vision of Windows 8 as well as responds to customer feedback.

The assortment of touch-enabled devices that are built for Windows 8 by our OEM partners is also improving. Over the last couple of months, we started seeing devices that take full advantage of Windows 8, and we expect to see more devices, across more attractive price points, over the coming months.

As part of this, we also are working closely with OEMs on a new suite of small touch devices powered by Windows. These devices will have competitive price points, partly enabled by our latest OEM offerings designed specifically for these smaller devices, and will be available in the coming months.

In the upcoming back to school selling season, we expect to see devices that incorporate advances from throughout the supply chain, including chipsets. Haswell, Intel’s fourth generation Core processor, will help enable new devices that combine performance benefits with power savings. Later in the year, we expect to see devices based on Intel's upcoming Bay Trail Atom processor which promises to deliver tablets and hybrid PCs with extended battery life at competitive prices.

Today in the Windows Store, there are six times as many apps since launch, and we expect more to be added as we gain traction with Windows 8 adoption. In June, we will host BUILD, our developer conference, where we will provide more tools and information for developers to build great Windows 8 apps.

In retail, we are working to improve the consumer purchasing experience. Our initiatives include focused efforts to further educate and incentivize retail sales professionals, and to have better in-store product differentiation.

In summary, Windows is transforming to the new era of computing. As I said on our last earnings call, growth in Windows depends on our ability to give customers the exciting hardware they want, at the price-points they demand, and a wider range of apps and services to meet their diverse needs. We are hard at work with our partners to meet these goals, and we’re confident we are moving in the right direction.

Now, switching gears to productivity. This quarter, we launched the latest version of Office which brings mobility, social, and cloud features to the world’s most popular productivity app. Importantly, the new Office represents a fundamental shift in our model. Now, both businesses and consumers can access Office through subscription. With this shift, we expect to grow our customer base, increase customer satisfaction via continuous updates, and reduce piracy.

As our enterprise customers modernize their productivity infrastructures, we are confident they will continue to deploy Office 365. We also expect our transactional customers to increasingly transition to the cloud with Office 365.

It’s been a while now that we’ve been talking about our investments in the cloud, and I’m pleased to share that we are starting to realize the benefits of those investments in a meaningful way. Office 365 lights up with this latest release as evidenced by our growing customer adoption. This quarter was our strongest ever, with net seat additions up five times over the prior year. One in four of our enterprise customers now has Office 365 and the business is on a $1 billion annual revenue run rate.

Our Server & Tools business continues its momentum with yet another solid quarter of revenue growth. Within the data platform, we continue to take share with our strength in mission critical and business intelligence workloads. Enterprises recognize the power of SQL Server to unlock business insight and as a result, we continue to significantly outpace the market and are seeing new deployments and very healthy renewals.

In enterprise cloud, just in the last week, we launched our Windows Azure Active Directory and infrastructure as a service offering on Windows Azure. This innovation across platform and infrastructure services uniquely positions Microsoft as the only cloud provider who can offer customers a comprehensive hybrid cloud solution that integrates existing IT infrastructure with all the benefits of the public cloud.

Xbox continues to be at the center of our living room strategy, having evolved from gaming to an entertainment platform. Whether they are playing games, being social, or watching movies, consumers continue to be drawn to Xbox LIVE. Xbox LIVE now has over 46 million members, up 18% from the prior year. Clearly, there’s a lot of momentum and with E3 only a couple of months away, we look forward to sharing more shortly.

In summary, our diversified portfolio drove solid revenue and earnings per share growth. We are hard at work - here at Microsoft and with our partners - to drive Windows 8 adoption forward. At the same time, we have strong momentum in our enterprise businesses, including our cloud services. Combined with our unique consumer assets like Xbox LIVE and Skype, we are well positioned to deliver on our devices and services strategy.

And with that, I’ll hand it over to Chris to discuss our quarterly results in more detail. I will then come back to discuss our expectations for the fourth quarter and beyond.

**CHRIS SUH, GENERAL MANAGER INVESTOR RELATIONS:**

Thanks Peter.

First, I'm going to review our overall results, and then I'll move on to the details by business segment.

Our diversified portfolio helped us deliver solid financial growth this quarter. Revenue was up 8% to $18.8 billion and operating income increased 5% to $6.7 billion. Earnings per share grew 8%, to 65 cents.

Foreign exchange had a $180 million, or 1 percentage point negative impact to revenue this quarter, and a $99 million or 2 percentage point negative impact to net income.

From a geographic perspective, we saw similar growth rates across both developed and emerging markets.

Multi-year licensing revenue continued to be strong, growing 16%. Additionally, unearned revenue grew 13% to $17.1 billion, and our contracted-not-billed balance was over $21 billion.

In the Windows division, revenue was flat this quarter. Within that, OEM revenue performance was in line with the underlying x86 PC market which continues to be challenged as the PC market evolves beyond the traditional PC to touch and mobile devices. This quarter, inventory levels were drawn down as the channel awaits new Windows 8 devices.

Non-OEM revenue grew 40% this quarter, driven by sales of Surface, and continued double-digit growth in volume licensing. Businesses continue to value the Windows platform. Volume licensing of Windows is on track to deliver almost $4 billion in revenue this year, and nearly three quarters of Enterprise Agreements that we’ve signed this year include Windows. Additionally, this quarter we saw continued progress in the transition of Windows XP to Windows 7, and now two thirds of enterprise desktops are running Windows 7.

Next, I’ll move onto our Server and Tools business, where we continue to have good momentum. Revenue grew 11%, highlighted by multi-year licensing revenue which grew 20%. The strength in multi-year licensing reflects the commitment and confidence that our customers have in our products and roadmap.

In the data center, the premium version of Windows Server, which targets Tier 1 application workloads, saw significant revenue growth again this quarter. Companies such as Domino’s Pizza and Xerox continue to look to Hyper-V and System Center to deliver their critical business applications. Revenue for System Center grew 22%, and Hyper-V, our virtualization product, has gained 4 points of market share over the past year.

Our momentum in public cloud continues with more innovation, greater customer adoption and a comprehensive suite of offerings. Enterprise customers like NBC Sports and 3M continue to choose Windows Azure for their cloud platform needs. Recently we launched Windows Azure Active Directory, which is an identity and access management solution designed to support cloud based line-of-business applications. Today, over 2.9 million businesses, government bodies and schools are already enjoying the benefits of Windows Azure Active Directory, using it to manage access to Office365, Dynamics CRM online, Windows Intune and Windows Azure.

In our data platform business, SQL Server revenue grew 16%, and again outpaced the broader market. Usage of SQL Server for Tier 1 applications continues to grow, based on functionality, reliability and value. In addition to our efforts in Big Data, we are developing in-memory BI technologies, built right into SQL Server, that achieve breakthrough improvements in transaction processing.

Now, I'll move on to the Microsoft Business Division, where revenue grew 5%. Within that, business revenue grew 10%, driven by 16% growth in multi-year licensing.

In January, we launched the new Office for consumers. The new Office introduces touch, social, and mobile scenarios, as well as tight integration with SkyDrive, enabling access to documents from any device. The new Office is also available as a subscription, which benefits customers as they are always using the most modern version of Office. As Peter stated, we expect this shift to grow our customer base, and we saw strong early adoption of the subscription service. I would like to remind you that with subscriptions, the revenue is earned ratably over the length of the subscription, rather than at initial purchase. All up, consumer revenue was roughly in line with the consumer PC market, influenced by this shift to subscriptions and strong attach gains.

In terms of our productivity server offerings, we continued to see strength with Exchange, SharePoint, and Lync, each growing double digits. Specifically, Lync revenue grew over 30% again this quarter, with excitement around the platform continuing to grow. Ninety of the Fortune 100 companies are now using Lync, and there are more than 5 million seats of enterprise voice deployed. At our Lync 2013 conference in February, we announced that Lync and Skype connectivity for presence, instant messaging and voice will be available to all Lync users by the end of June. Connecting these audiences is a key milestone as we deliver on the promise of truly unified communications.

Next I’ll move on to the Online Services Division, where revenue grew 18%. Online advertising revenue was up 22%, driven by another quarter of significant search rate improvements. Operating performance improved 45% this quarter, driven by revenue growth, and continued expense management.

In the Entertainment & Devices Division, revenue grew 33%. Xbox sold 1.3 million consoles and maintained its share position in a soft console market. Xbox LIVE continued its strong momentum, and we continuously look for ways to further extend the value of Xbox LIVE, for both our members and content partners. And as evidence of the expanding benefits, we saw transactional revenue grow roughly twice as fast as member growth this quarter.

Momentum with Windows Phone continues to build. The devices, now available at broad range of price points, are receiving great reviews, and carrier support continues to grow. We now have over 10% share in several countries, but realize that there is still a lot of work ahead to break through in some key markets. With growing awareness of Windows Phone, and sustained innovation from our hardware partners, we feel well positioned to continue our momentum.

Now I’ll cover the remainder of the income statement.

Cost of goods sold increased 21%, principally driven by Surface, growth in cloud infrastructure, and royalties on Xbox LIVE content and video games.

Operating expenses grew 4%, primarily related to product launch marketing.

This quarter our effective tax rate was approximately 19%. And finally, we returned $2.9 billion to shareholders in buyback and dividends.

Now I will turn the call back to Peter for our outlook.

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

Thanks, Chris. For the remainder of the call, I will discuss our expectations for the fourth quarter and share some thoughts on Fiscal Year 2014.

Let me start with the fourth quarter.

In the Windows Division, similar to this quarter, revenue will continue to reflect sales of Surface and strong volume licensing, while OEM revenue will be impacted by the declining traditional PC market as we work to increase our share in tablets.

Within Server and Tools, product revenue, including transactional and multi-year licensing, is about 80% of the division’s total revenue, and enterprise services is the remaining 20%. We expect both product and enterprise services revenue to grow low double digits.

In the Microsoft Business Division, multi-year licensing revenue, which is approximately 60% of the division’s total, should grow low double-digits. Excluding the recognition of revenue from the Office Upgrade Offer, transactional revenue, which is the remaining 40% of the division’s total, should be in-line with the x86 PC market.

As a reminder, when updating your Q4 models, we expect to recognize approximately $780 million of revenue related to the Office Upgrade Offer.

In the Online Services Division, we expect revenue to grow low double-digits reflecting growth in search revenue, partially offset by lower display revenue.

Moving on to the Entertainment and Devices Division, we expect revenue to grow mid-teens.

For the fourth quarter, we expect COGS to grow mid-teens, including Surface.

Other Income and Expense includes dividend and interest income, offset by interest expense and the net cost of hedging. In the current low interest rate environment, we expect these items to generally offset.

We are reducing our full fiscal year guidance for operating expenses to $30.2 to $30.5 billion. This range excludes the impact of the European Commission fine of $733 million.

For the full fiscal year, we expect our effective tax rate, excluding the expense related to the European Commission fine, to be 17 to 20%, and we continue to expect capital expenditures to be about $3.5 billion.

Excluding the impact of the Office Upgrade Offer, unearned revenue should roughly follow historical seasonal patterns.

Now, turning to Fiscal 2014.

We expect fiscal 2014 operating expenses to be $31.6 to $32.2 billion, which represents growth of 4 to 6% from the mid-point of our updated fiscal 2013 guidance. We will continue to prioritize our spending while investing in the significant opportunity that is ahead of us.

As we look towards the future, we have a solid foundation of products and services in market and our leadership team is collectively focused on advancing every one of our businesses. You can expect to hear more about the specific actions we are taking over the next few months.

With that, I’ll turn the call over to Chris and we’ll take some questions.

**MARK MOERDLER, Sanford Bernstein:** Thank you. And thanks, guys, for the cloud data. We've been looking for a lot of this, so it's very helpful. Let me ask, I guess, two related parts to that. Can you give us a sense on the growth metrics in terms of Office 365, which is what you're starting to give here, in terms of revenue, users, customers, something that we can think about there?

And the second half of that, can you give us a sense in terms of the percentage of Office 365 customers that are net new to Exchange? I know you've given little bits of data on SMB, and new SMB customers, but any sense there would be appreciated.

Thanks.

**PETER KLEIN:** Thanks, Mark. On Office 365, the metric that we gave was net seat additions are up five times over the prior year. So that gives you some growth metric in addition to the revenue number.

To your point on Exchange, or more broadly I would say about other workloads, we're seeing exactly that dynamic. So, not only are we addressing and reaching new customers segments, like SMB, but many of them have never had a productivity server workload before, not just Exchange, but others as well. And even those that have had Exchange are now using other workloads. So, we're seeing most of our customers having more than one workload.

So, across every division in terms of new revenue streams from the service, new customer segments, and new workloads, there's a lot of new, and that's what's driving the growth and the opportunity that we've been looking for.

**MARK MOERDLER:** Thank you very much, I appreciate it. And I'll be looking forward to hearing what you're doing the rest of your life, and good luck.

**PETER KLEIN:** Thanks, Mark.

**CHRIS SUH:** Next question, please.

**PHILLIP WINSLOW, Credit Suisse:** Hi, thanks guys. You provided a little bit of color on Surface. Obviously, we're seeing an expanding portfolio there. I just wonder if you have a sense of how this is evolving, especially on the distribution side, and how the product is doing versus your expectations. And then, when you start to think about going forward, how would you also expect the other product portfolio to evolve as well as distribution?

**PETER KLEIN:** Great question. As I said, we are expanding both the product set and distribution, and that is broadly all devices inclusive of Surface. We are expanding distribution of Surface. We're now in 22 countries, seven new retailers. And we'll continue to look to expand that, not only just expanding but improving the experience. And that's true not just for Surface, but broadly for Windows 8 devices, and so we'll be investing against that for both Surface and a broader array of Windows 8 devices at multiple price points, including lower price points going forward.

**CHRIS SUH:** Thank you.

Next question, please.

**WALTER PRICHARD, Citi:** Thanks, Peter and Chris. I wonder if you could weigh in. There's been a bit of a debate this quarter around sort of what the underlying PC market did. And I think we've seen numbers ranging from a mid single digit decline to a mid-teen decline. I'm just wondering first if you could weigh in on that? You've in the past given some sort of range.

And then related to that is, if you look at the second half, I'm wondering how we should set our expectations around this kind of mid to high end Haswell release from Intel in terms of impact it may have on the PC market versus the later in the year, more holiday time, lower end ATOM release, and how those two chip releases may have an impact on what you're expecting from the device market and overall impact on Windows?

**PETER KLEIN:** Yes, thanks, Walter. On the PC market, I would look to some of the third parties, IDC and Gartner, they're sort of in the 12-13-14 down range this quarter. And in terms of the chipsets, you know, we've always felt that with Windows 8 there was a process of the ecosystem really innovating across the board, and you're really starting to see that on the chips. And we're very encouraged by both Haswell and some of the ATOM processors to really improve the overall user experience that Windows 8 delivers. And over the coming selling season, I think that's very encouraging.

**CHRIS SUH:** Thanks, Walter.

Next question, please.

**HEATHER BELLINI, Goldman Sachs:** Great. I was wondering, Peter, if you can help. We've heard Intel talk about Haswell, and they mentioned it on the call, I think it was last night. You obviously mentioned it. I guess I'm just wondering, what can you guys do to specifically help grow your tablet share, given you are reliant ‑‑ ex the Surface products ‑‑ on OEM partners to really hit a broad segment of the market. And I'm thinking in general given the OEM partners don't have much wiggle room on the margin side, what can you do to help kind of stimulate your market share in particular in the mobility and in the tablet side? Thank you. And good luck in the future, we're going to miss you.

**PETER KLEIN:** Thanks. I've enjoyed working with you.

I think broadly in improving our position in tablets, and just generally in devices there's five or six to dimensions, ranging from what we're doing with OEMs on the devices and the range of devices and how we have a range of price points; what the chips can do, because I think that's part of it; both first party and third-party applications and we've seen improvements across the board there; the user interface and how we're innovating across the user experience; and then distribution. So, if you start sort of from the bottom up, all the way to when you buy the products, we're working across all those dimensions.

And on the device side we are working closely with the OEMs to help them take Windows 8 and show it off in all its glory, across different form factors. I talked about new smaller form factors and how Windows 8 can innovate to improve that experience. So, I think the biggest thing we're doing is helping to develop new and improved user experiences across the board, across size, across price points, to deliver a really compelling Windows 8 experience. And it's not just the devices, like I said, it's the chips, it's the apps, it's the buying experience, it's the user interface. So, we're really focused on all five or six of those dimensions going forward.

**CHRIS SUH:** Thanks, Heather. Next question, please.

**KEITH WEISS, Morgan Stanley:** Thank, you guys, for taking my question and nice quarter. I wanted to ask about the impact. You mentioned on the call that going to subscription revenues does have a near-term impact on revenues. I was wondering if you could help us out and understand whether we're seeing that impact today and perhaps to what degree with the strong uptake of some of the cloud services, particularly like Office 365?

**PETER KLEIN:** Yes, it's a good point. Yes, we are seeing that particularly in our transactional business and in MBD. As people move from what may have been a transactional or perpetual license, where the revenue is recognized up front, to a subscription service where it's recognized ratably. So, you're basically deferring the rest of the term of the subscription.

So, in the short-term you'll be deferring revenue that if it were bought not in a subscription would have been recognized immediately. As the subscription business is growing you'll see that impact growing. But, over time what you'll get more looks like an annuity revenue stream that's more predictable, and has higher customer satisfaction, and probably higher retention rates going forward. But, in the short-term that will impact mostly in the transactional side of the MBD business.

**KEITH WEISS:** Excellent, thank you.

**PETER KLEIN:** Thanks.

**CHRIS SUH:** Next question, please.

**BRENT THILL, UBS:** Thanks. Peter, just on the gross margin, it's been under pressure for the last several years, but this quarter it did bounce back. Can you just give us a sense of how you think gross margins will trend and do you expect this is a stabilization we should expect a slow improvement from here, or expect more of the same in terms of where they've been in the last couple of quarters.

**PETER KLEIN:** Yes, gross margins as you know are always going to be a function of mix. And so depending on where you are in the quarter, the biggest driver of what your gross margin is going to be is mix. So, if you have a big hardware quarter that has low gross margins that will impact it. The biggest things that are going to impact the mix are going to be hardware, cloud services, and enterprise services or people services. It is a fact that we are starting to get scale in our cloud services and so the growth that we're seeing in Office 365 is really coming at an improved margin as we scale that up.

So, within each we make progress, and then overall in a given quarter for the company it's going to be a function of mix. So obviously in a holiday quarter where you sell a bunch of hardware that will have an impact on gross margin. But, I think one of the main takeaways for me is in particularly some of our cloud services we're really starting to get scale. Bing continues to improve their margins and Office 365 is really starting to get to scale. So those things are really encouraging.

**BRENT THILL:** Thanks. Congrats, Peter.

**PETER KLEIN:** Thanks.

**CHRIS SUH:** Thanks, Brent. We'll take the next question please.

**ED MAGUIRE, CLSA:** Hi, thanks for taking my question. You just launched your Azure infrastructure as a service just went generally available this week. And I'd love to get some color on how much that's figuring in the long-term contracts, the growth in long-term contracts, and what your expectations might be for more traditional infrastructure as a service uptake over the next several quarters. Thanks.

**PETER KLEIN:** Thanks, great question. It's clearly a key enabler of our all-up cloud OS story and how we're driving what we're doing with enterprises in the data center. With infrastructure as a service we now have the most complete end-to-end offering through platform and software, identity, and access. But, having the infrastructure is a key enabler and I think a real accelerator for the Windows Azure strategy and really more broadly the cloud OS strategy. We now have a complete end-to-end story through the data center from private, to hosted, to public, from infrastructure to platform. So, I think it's, again, a key enabler of that all-up strategy and accelerator.

**CHRIS SUH:** Thank you, Ed.

We'll take the next question please.

**JOHN DIFUCCI, KPMC:** Thank you. Peter, I'd just like to echo other's thoughts here. It truly has been a pleasure and I wish you the best going forward.

My question is for Chris and Chris I just want to clarify something you said about inventories. I think you were taking about PC inventory. But, with the Windows business can you give us your assessment of what Windows inventory is at OEMs, especially given the disappointing PC shipment data this quarter?

**CHRIS SUH:** Thanks, John. Yes, I did mention the fact that we believe inventories were drawn down. We do think that they're at normal levels at this point though.

**JOHN DIFUCCI:** Okay, great. Thank you.

**PETER KLEIN:** Thanks, John. I appreciate it.

**CHRIS SUH:** Next question please.

**GREGG MOSKOWITZ, Cowen and Company:** Okay, thank you. Good afternoon and, Peter, I'll echo my sentiments as everyone else did, as well. So, in recent periods we've seen your MBD growth significantly outpace PC unit growth, although we now have a dynamic where your Office subscription is really resonating with customers. So, the question is just looking at this on a directional basis, is MBD revenue out-performance relative to PC units something that you think is sustainable going forward?

**PETER KLEIN:** Yes, the answer is it will depend. It's certainly an offset between attach gains we're making against the market, offset against some deferral as revenue moves to a subscription. So, it will kind of depend each quarter. Long-term it's a great trend, because we're building up a banked book of business on the subscription side, which will become less and less connected to the PC market.

**GREGG MOSKOWITZ:** Thank you.

**PETER KLEIN:** Thanks, Gregg.

**CHRIS SUH:** Thanks, Gregg.

Mary, I think we have time for two more calls, two more questions, please.

**RAIMO LENSCHOW, Barclays:** Thanks for taking my question. Peter, all the best.

A quick one, if you look at kind of IBM coming out earlier on today having a relatively tough quarter given the economy, can you just comment a little bit of what you're seeing out there, especially in the Server and Tools Division, but other guys are really struggling. So, help us understand how you see the economy? Thank you.

**PETER KLEIN:** I think about the economy, and then I think about the value proposition of our products. Clearly, there are tough spots in the economy. I think enterprises and CIOs are looking for what they've always been looking for, which is how do they get the best value for their dollar to move their businesses forward. And I think we have a very good story in terms of the value that enterprises and small and medium businesses get from the capabilities that they can get from us, particularly in the data center with SQL. And as you compare SQL Server to competing products, the performance that you get relative to the price is a really compelling value proposition. And that's what's been enabling us to take share, the same on virtualization as well.

And so I think for us it's a combination of having the most complete roadmap for getting to the cloud, as well as the best collection of products that have price performance characteristics that are attractive to CIOs that are allowing us to have growth in our enterprise business, particularly in Server and Tools.

**RAIMO LENSCHOW:** Thank you.

**CHRIS SUH:** Thanks, Raimo.

Last question, please.

**BRAD REBACK, Stifel:** Thanks very much.

Peter, as you look at the PC data over the course of the quarter, could you give us any sense of how that trended, and following up on that, as you think about the business upgrade cycle, which should be over by this time next year, do we risk a real fall off again in the PC business because the upgrade cycle has aided what has been a difficult PC market for the last couple of quarters? And best of luck, by the way.

**PETER KLEIN:** Thanks, Brad.

On you first question, there wasn't anything sort of abnormal in terms of the trends during the quarter. On your second question, I think the upgrade cycle, particularly for businesses, will be interesting over the next year. I think over the longer term what's more interesting is the long-term evolution we're seeing in the device market, which I think is actually going to be more of a driver than any sort of temporal upgrade cycle. I think people are looking to innovations to happen faster. People are getting new experiences and new form factors, and that's what Windows 8 was designed to take advantage of. And so I think about the opportunity more about the new capabilities and the new sets of services and experiences people can get on their devices and different kinds of devices than it is about an upgrade cycle that's driven by something else.

**BRAD REBACK:** Great. Thanks very much.

**CHRIS SUH:** Thanks, Brad.

Okay. So that will wrap up the Q&A portion of today's earnings call. We look forward to seeing many of you in the coming months at events such as E3, TechEd and BUILD, as well as at various investor conferences. For those of you unable to attend in person, these events will generally be webcasted, and you will be able to follow our comments at Microsoft.com/investor. Please contact us if you need additional details.

Thanks again for joining us today and take care. Thank you.