

**Microsoft First Quarter 2011 Prepared Remarks**

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**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

I’m pleased to be able to share with you our excellent results for the first quarter, which reflect the ongoing strength and breadth of our product portfolio. Demand from both businesses and consumers drove healthy revenue growth. We delivered record first quarter revenue, operating income and earnings per share.

We continued to control costs while prioritizing our investments into the highest growth opportunities, resulting in another quarter of margin expansion.

As we discussed at our analyst meeting in July, we have eight core focus areas that we feel have the greatest opportunity to drive shareholder value. This quarter, we had exceptional momentum across these focus areas, and I want to start today’s call by giving you some important highlights.

First, the Microsoft business desktop is thriving with enterprises and small and medium-sized businesses investing in our products and services. Not only are companies adopting Windows 7 and Office 2010 at historically high rates, they are also investing in our Office productivity platform including SharePoint, Exchange, Dynamics CRM, and Lync, the newly re-branded Office Communications Server, all of which grew double-digits this quarter.

The server and database businesses had strong momentum as our datacenter and cloud offerings remain a top priority for our customers as they continue to adopt the Microsoft platform. In addition, Windows Azure had strong subscription growth, and we announced a number of platform enhancements this morning at our Professional Developers Conference.

As I mentioned at the beginning of this call, consumer demand for our products continued to drive terrific results this quarter. In terms of our core focus areas: Xbox momentum continued with our console outselling every competing console in the US for the fourth consecutive month; Bing use hit an all-time high with almost double the number of queries since it launched last year; and consumers continued to show their strong preference for Windows 7 and Office 2010.

Customer satisfaction across our products remains at record high levels.

We also made exciting progress in the mobile space with the recent launch of Windows Phone 7 in Europe and Asia, and the upcoming November 8th launch in the US.

So in summary, I’m very pleased with our performance this quarter. We executed well in all of our core focus areas, and we’re off to a good start for the year.

With that, I will hand it back to Bill to provide more details on the quarter’s results.

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

I’ll start today by noting that all of my comments are adjusted for the $1.5 billion of revenue which was deferred in the first quarter of last year. As you probably recall, this deferral was related to the Windows 7 Upgrade program and Windows 7 licenses sold in advance of general availability in the first quarter of last year. We’ve reconciled this non-GAAP view to GAAP results in our earnings slide deck. All growth comparisons I make on the call today will relate to the corresponding period of last year unless I specify otherwise.

Ok, now to our results. We started the fiscal year with great financial performance. Total revenue for the company was up 13% to $16.2B. Operating income and EPS grew 20% and 19% respectively, again outpacing revenue growth. Bookings for the company were up an outstanding 24% this quarter. Bookings growth over the last three quarters was the highest in the last three years. Operating cash flow passed $8B for the first time ever and was up 34%.

A number of the demand patterns and trends we saw in the second half of our fiscal year 2010 were sustained through the first quarter of 2011.

In the first quarter, consumer demand for Office 2010 and Xbox were outstanding, and we’re pleased with the continued adoption and growth of Windows 7 and Bing.

Sales to small and medium businesses were exceptionally strong with revenue up over 30%. This growth was partially due to a greater level of partner engagement as we had an increase of over 15% in the number of partners selling Microsoft products around the world.

We also saw strengthening trends in the enterprise segment, despite what is typically a seasonally weak quarter. Our compelling product portfolio across Windows, Server & Tools and the Microsoft Business Division is driving increased enterprise agreement renewals.

Unearned revenue at the end of the quarter was $13.9 billion, due to the strength in enterprise agreements. The contracted not billed balance ended the quarter over $16 billion, significantly above pre-recession levels.

Geographically, emerging markets continue to significantly outperform the rest of the world. Growth in the US and Europe remained stable and healthy.

We see customers of all sizes embracing cloud services from Microsoft. Organizations are leveraging our commercial and educational online services to run their businesses and institutions while consumers are increasingly using services like Xbox Live, Windows Live, and Office Web Apps. Microsoft has significant cloud momentum and we are leading the industry through this transformation.

Turning to the PC market, we estimate PCs grew between 9 and 11% in the first quarter. Consumer PCs grew single digits while business PCs grew mid-teens, as the business hardware refresh remained strong. From a geographic perspective, we estimate emerging market PCs grew over three times the rate of mature markets.

Regarding netbook trends, we have seen consumers shift from buying netbooks to low-end notebooks and we have not seen a material shift away from low-end PCs due to tablets in the market. Instead, we’ve predominantly seen consumers increase their number of devices and their usage scenarios. Going forward, we see a strong pipeline of innovation from our partners for new Windows form factors.

With that PC backdrop, I’ll move on to the results for the Windows and Windows Live Division which grew 10%. Windows 7 drove the fourth consecutive quarter of double-digit revenue growth for the division.

In the first quarter, Windows OEM revenue which represents approximately 75% of the Windows and Windows Live Division was up 11%. In our earnings slide deck we provided the usual revenue bridge to market, but in summary, the overall dynamics of the market were as expected, with strength in business PCs and emerging markets.

Now let’s move to Server and Tools which posted a great quarter with 12% revenue growth. We estimate the underlying server hardware market grew mid-teens. Non-annuity revenue grew approximately 15% with Windows Server growing in line with the hardware market. Multi-year licensing revenue growth was roughly 10% and Enterprise Services grew 9%.

At the financial analyst meeting in July, we discussed the assets and momentum of our Server & Tools portfolio. Let me provide some additional context to the underlying momentum and adoption this quarter. As Peter mentioned, our datacenter and cloud offerings are a top priority for businesses. We estimate Windows Server usage share grew 1.5 points while at the same time Windows Server premium mix grew 4 points. System Center revenue grew over 20%, and within that, revenue from server virtualization suites grew over 50%. Our virtualization share continues to grow as IDC reports Hyper-V’s share of newly virtualized hosts doubled over the past year to 16.5%.

Windows Azure is also gaining traction and has grown subscriptions 40% sequentially. This morning at PDC we announced a number of platform enhancements as Peter mentioned. These enhancements will help customers build new applications and migrate existing applications to the cloud and allow developers and ISVs to build unique applications with the richest data sets possible.

Next I’ll move on to the Online Services Division, which grew 8%. The Online advertising component of the division grew 13%, primarily driven by our search business, which again outperformed the market leader. Yesterday, Bing reached a significant milestone with the Yahoo! partnership. Through diligent efforts on behalf of both companies, Bing is now powering Yahoo!’s algorithmic and paid search results in the US and Canada.

Turning to the Microsoft Business Division, revenue grew 14%. In the fourth quarter, I commented that the market’s reception to Office 2010 has been phenomenal, and the first quarter was no different. Consumer revenue grew 26% from continued launch momentum. Office 2010’s unit sales are 20% ahead of Office 2007 over the same time period. In addition, our free Office Web Apps now have more than 20 million users since our June launch. The business portion of MBD grew 11% with the non-annuity sales of Office 2010 up almost 50%. We’ve seen strong demand from small and medium customers and PC attach has rebounded from the year-ago levels. The multi-year licensing portion of the business grew about 5%.

We’ve spoken with you about the Office productivity platform strategy which includes Office, SharePoint, Exchange, Dynamics CRM, and Lync, and we’ve seen strong momentum and renewal rates with our 2010 offerings. Let me give you some of the underlying product momentum in MBD. Lync grew 25% and the new version is expected to be available in our second fiscal quarter. Dynamics CRM, which just released a new beta this quarter, grew healthy double-digits. Sales of Exchange and SharePoint, which are each billion dollar plus businesses, also grew healthy double-digits.

Enterprises are adopting the entire business productivity infrastructure. They now have unparalleled choice when deploying their applications in their own datacenter or in the cloud. During the quarter, we announced a number of significant cloud wins, including the City of New York last week. The number of business customers licensing our cloud services has more than tripled in the last year. In education, we now have over 10,000 schools and 11 million students signed up for our live@edu service.

On October 19th, we announced the next generation of our cloud productivity service, Office 365. Office 365 brings together Lync, SharePoint, Exchange, and Office Professional Plus desktop software in an always-up-to-date cloud service, and is designed to meet the needs of organizations of all types and sizes. From a business model perspective, Office 365 creates new profit growth opportunities for us and our partners and enables new scenarios that weren’t viable in the past. With Office 365, we can reach more people, we will sell more to each customer, and we will increase customer satisfaction. Office 365 will be available worldwide in calendar 2011.

Let’s move on to the Entertainment & Devices Division which grew 27% reflecting higher Xbox 360 platform revenue. We sold 2.8 million consoles this quarter, a unit increase of 38%. In the US, the new Xbox 360 console has outsold all other platforms since its introduction, resulting in record first quarter shipments. Halo Reach also had a solid launch this quarter reaching approximately $350M in revenue. The Halo effect extended to Xbox Live with continued strong membership growth this quarter. Windows Phone 7 launched last week in Europe and Asia, and we eagerly anticipate the introduction in the US on November 8th.

Now let me cover the remainder of the income statement. Cost of goods sold increased 10% to $3.1 billion, driven primarily by increased Xbox hardware volume and online costs. Operating expenses were $5.9 billion in the quarter, an increase of 6%. In the first quarter we repurchased $4 billion of shares, returned $1.4 billion through dividends, and increased our dividend rate 23%.

So, in summary, we’re off to a great financial start for the year with 24% bookings growth; we’ve seen strong business spending across Windows, Server & Tools and the Microsoft Business Division in both traditional and cloud offerings; and our consumer momentum continued.

And with that, I’ll hand it back to Peter, who’s going to discuss our business outlook .

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

Great, thanks Bill. For the remainder of the call, I’ll discuss our expectations for the second quarter and remainder of fiscal 2011.

According to many recent surveys, enterprise IT spend should continue to grow for the remainder of the fiscal year. With the depth and breadth of our offerings, we are well positioned to grow our share of the IT spending market.

We expect business PC and server hardware purchasing to remain a high priority for most businesses. The business PC refresh cycle should continue through at least the remainder of this fiscal year. As was the case this quarter, we expect business PC growth to outpace consumer PC growth, and emerging market growth to outpace developed market growth.

 We are confident that tablets will expand the PC market and we’re enthusiastic about our opportunity, along with our partners, to bring Windows to additional form factors and new usage scenarios. Windows will continue to provide the choice and value that customers want across devices.

With that backdrop, I’ll now turn to segment expectations.

Windows Division revenue should grow roughly in line with the PC market for the second quarter and the full year when excluding the impact of the prior year tech guarantee and revenue attributed to the launch spike. For the second quarter of fiscal year 2010, you should exclude $1.7 billion of revenue related to the tech guarantee and $600 million of revenue related to the launch spike. For the full year, you should exclude $300 million and $700 million, respectively, related to these events.

Moving on to Server and Tools. For Q2 and the full year, we expect non-annuity revenue, approximately 30% of the total, to generally track with the hardware market. Multi-year licensing revenue, approximately 50% of the total, should grow high-single digits for the second quarter and low double-digits for the full fiscal year. Services, which is the remaining 20%, should grow mid-single digits for both the second quarter and the full fiscal year.

Turning to expectations for the Microsoft Business Division. Consumer and business non-annuity revenue, approximately 40% of the division’s total revenue, should continue to track to PC shipment growth rates for the second quarter and the fiscal year. We also expect revenue associated with multi-year agreements, representing 60% of total revenue, to grow mid-to-high single-digits for the second quarter and the fiscal year as we slowly start to recognize the higher growth billings going onto the balance sheet. When updating your models, you should remember that next quarter, in addition to the framework I just provided, we will also recognize approximately $220 million of deferred revenue related to tech guarantees.

For Q2 and the full fiscal year, we expect Online Services Division revenue to outperform the online advertising market, reflecting continued organic revenue growth, as well as new revenue associated with our Yahoo partnership. The majority of Yahoo-related revenue will be recognized net of traffic acquisition costs. We expect the benefits of the integration to occur gradually over the next several quarters.

And finally, in the Entertainment and Devices Division, we’re very excited about the launch of Windows Phone 7 and we anticipate that Kinect will be “THE gift” this holiday season. Considering the momentum and high level of consumer interest in our offerings, we expect this division’s revenue to grow roughly 30% for the second quarter and in the mid-twenties for the full fiscal year.

Switching to cost of goods sold expectations for the company. The biggest factor impacting COGS next quarter will be the expected and significant increase in hardware sales due to the upcoming launch of Kinect. Obviously Xbox consoles and Kinect have a higher COGS profile relative to revenue than the rest of our business and you should consider this impact in your models.

Turning to operating expenses, we continue to prioritize our investments and remain diligent on cost controls. We are reconfirming our guidance of $26.9 to $27.3 billion for the full fiscal year.

We expect the low interest rate environment we experienced in the first quarter to continue through the second quarter and the fiscal year, and for investment income to be fairly consistent with the first quarter level.

We continue to expect capital expenditures for fiscal year 2011 to be about $2.5 billion. We expect our effective tax rate to be 23 to 24% for the second quarter and the remainder of the fiscal year.

Turning to the balance sheet, at the end of the second quarter, we expect unearned revenue to roughly follow historic seasonal patterns, excluding the $220 million impact of the tech guarantees.

So with that color for Q2 and the rest of our fiscal year, I want to close by saying that we are extremely pleased with the results we delivered this quarter. We executed well in all of our core focus areas. The products and services we’ve brought to market over the past year are being embraced by our customers and as a result, our product portfolio is as strong as it has ever been. This, combined with our continued prioritization of investments into the highest growth opportunities, will help us drive long-term revenue and earnings per share growth.

 With that, let’s take some questions. Bill?

**BILL KOEFOED:** Thanks, Peter.

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

Barb, can you please go ahead and repeat your instructions?

(Operator Direction.)

**ADAM HOLT, Morgan Stanley:** Thank you. And congratulations on a really good start to the year.

My question is about Office. Obviously, also, a very good start for 2010. As you look back at 2007, business growth exceeded 20 percent for a number of quarters. As you think about the internals in terms of penetration and duration for this cycle, what are your early thoughts about how it could compare, and where are you seeing evidence on the success around some of the bundling that you talked about?

**PETER KLEIN:** Yes. Thanks, Adam.

At a high level, certainly I would point you to the guidance framework that we just talked about, and what we expect relative to the business PC market. And obviously, business hardware refresh is a great underlying driver for that business, as well as excitement around the product. And in terms of Office, I think the thing that's most encouraging for me is the breadth of the strength around it across all customer segments, whether that was small and medium-sized businesses and enterprises.

In terms of the integration story, Bill touched on the strong growth across all of those businesses. And I think they're really starting to see that resonate very well with customers. And, in fact, as we had anticipated when we were talking about anticipating 2010, Office 2010, that was going to be a key part of the story, and I think we're starting to see that play out, early days, which I think can sustain for a while.

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

(Operator Direction.)

**HEATHER BELLINI, ISI Group:** Hi, thank you.

Peter, I was wondering. You mentioned that the Windows 7 enterprise upgrade cycle would last at least through the end of Fiscal '11. And I guess I'm just wondering if you could share with us how the upgrade cycle itself is tracking versus your expectations from a few quarters ago? Thank you.

**PETER KLEIN:** I would say two things. One, just in terms of enterprises’ desire to upgrade –very strong, at sort of the high levels. I think what we're seeing are people actually doing their deployment a little bit faster than I think we expected, and we've seen in the past.

In terms of the overall business, obviously we're seeing enterprises and businesses refresh their hardware, which is obviously a great thing in terms of the Windows 7 business.

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

(Operator Direction.)

**WALTER PRITCHARD, Citi:** Hi. Bill, and Peter, I'm wondering if you can talk a bit about just enterprise agreements in general. And we're certainly not back to a normal economic environment, but your performance there, especially the improvements over the last several quarters here, seem to suggest that maybe you are getting back to kind of normal behavior from customers despite headcount being pressured. I'm just wondering if you could talk to us about what you're seeing as the drivers of growth in that part of the business more generally?

**PETER KLEIN:** Yes. Thanks, Walter.

I think you're seeing the confluence of several things. Obviously one is just macroeconomics, and businesses investing in IT again. And I think the other is our product portfolio, and sort of the combination of those two things has gotten enterprise really wanting to invest both in their IT infrastructure, and in our portfolio of products. And so, as we had hoped over the course of the last year, we thought those two things might come together.

The last thing I'll say is the accelerated interest in the cloud. And so when you add on top of it where we've come in terms of our cloud offerings, and what that means for enterprises as they think about investing for the long-term, they want to invest with somebody who can make the transition from their on premise infrastructure to the cloud as soon as it's possible, and I think you're seeing that as well.

And so the conversations that we're having always include our new product portfolio as well as our cloud offerings. And I think that, taking into account the better macroeconomic environment, has all come together to really drive a better environment.

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

(Operator Direction.)

**SARAH FRIAR, Goldman Sachs:** Great, thanks for taking my question, guys. Peter, on the cost side you had tremendous operating margins this quarter. As you look forward you maintained the cost goals for the full year. Is that in anticipation of what's coming around the Windows Phone Launch and Kinect, or are there ways to continue to see you be a lot more efficient on the cost side over the next couple of quarters.

**PETER KLEIN:** Thanks, Sarah. As you know, we're always looking at ways to be as efficient as we can on the cost and right now we're executing against the plan we feel very good about our plan that we've been talking about over the last couple of quarters. So, first quarter was good, and we continue execute against that plan. Obviously in Q2 we do have some launches coming out and that was always in our plan and those starting off are going very well.

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

(Operator Direction.)

**BRENT THILL, UBS:** Thanks, Peter. If you could drill one level deeper into the corporate demand and maybe give us a sense of what inning you think we're in, in terms of the corporate upgrade.

**PETER KLEIN:** First baseball reference. Thanks, Brent. I won't say go Giants.

**BRENT THILL:** You can say it.

**BILL KOEFOED:** He doesn't want to, but I do.

**PETER KLEIN:** You know, in our guidance we talked about the rest of this year. I think we have to see how that plays out. That's sort of where we have visibility and what we're talking about. But, certainly over the last couple of quarters looking forward over the next couple of quarters, and in talking to customers and what they're looking to invest in, clearly a priority is investing in refreshing their hardware and the related Microsoft products that come along with that.

Operator, next question.

(Operator Direction.)

**PHILIP WINSLOW, CREDIT SUISSE:** Hi, guys. Great quarter. I just wanted to focus in on the Server and Tools Division for a minute. Peter, what are your OEM partners telling you about just where we stand in the server refresh cycle and how much do you see this high growth rates that we're seeing in server shipments either continuing or not continuing in the next year. Thanks.

**PETER KLEIN:** Thanks, Phil. Similar to PCs, I think it's a similar dynamic. The businesses are investing broadly in their infrastructure whether that's PCs or servers. In our outlook we talked about how we expect that to continue for the rest of this fiscal year. So, it's very similar to what we just talked about in terms of the PC refresh.

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

(Operator Direction.)

**KATHERINE EGBERT, Jeffries:** Hi, good afternoon. If I do some math I come up with about 40 percent of your revenue coming from all consumer sources and about 60 percent business. It looks like the consumer revenue is about flat, and you're in the business revenues growing high teens, is that accurate?

**BILL KOEFOED:** Well, if you look at it that way...

**PETER KLEIN:** It's hard to answer that question if I don't know exactly your math. I will point out a couple of key highlights on the consumer side. If you look at the entertainment and devices, the Xbox growth of 27 percent, that's something that we feel really good about and it gives us great momentum heading into the holiday with Kinect, and the same thing with our search revenue outgrowing the market. So, those are sort of the key highlights.

**BILL KOEFOED:** Consumer in Office was up 26.

**PETER KLEIN:** Correct, so we actually feel really good about the consumer growth. It's hard to answer the specific question without ‑‑

**BILL KOEFOED:** And we feel good about the business growth. So, it was a good quarter for both.

**KATHERINE EGBERT:** Okay. Thank you.

**BILL KOEFOED:** Thanks.

Next question, please.

(Operator Direction.)

**KASH RANGAN, Merrill Lynch:** Hi, thank you very much. It's good to see the cash flow and the operating margins, and also you bought back a ton of stock in the quarter. My question is about growth. I just want to answer this from a qualitative standpoint. Incrementally, relative to the last two quarters what's your confidence level in your growth rate? I just noticed some of the forward-looking indicators. Your business tends to lack broader spending, because you have this annuity model for the most part. Look at the unbilled portion that set a record high. Your EA renewals are, you characterized, better than before. The deferrals also came in nicely. What is your incremental confidence with respect to our revenue growth rate, considering how you have your expenses tied up, I would assume that there's a lot of operating leverage for the incremental revenue upside. Talk to us about your confidence in your revenue growth outlook. Thanks.

**PETER KLEIN:** Great, yes. Honestly, we feel pretty good. We had such a strong performance on the business side. And that flows through if you look at our outlook on the annuity side to your point, we've slightly increased our annuity revenue outlook in MBD and STB, which reflects the strength in the billings that we've seen. As you pointed out, it takes time for that to flow through the income statement, and it will throughout the rest of the year.

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

(Operator Direction.)

**JOHN DIFUCCI, JP Morgan Chase:** Thank you. Peter, my question has to do with PC market, PC sales, unit sales. You and your Windows OEM revenue bridge, which is always very helpful, you start off with PC market of 10 percent growth. But, industry analysts are coming out and I know you're not doing their work, but it's actually quite different from what we've seen out there from industry analysts by about 2-1/2 percent in this quarter, which is a bigger range than we usually see.

I'm just wondering, can you just help us out a little bit with that, because those things come out throughout the quarter and we take a look at those and we realize that a lot of your ‑‑ well, at least the Windows business, and also MBD with Office is driven by that, or at least significantly driven by that. Any comments on that the difference?

**BILL KOEFOED:** Actually, John, I'll take that. So, IDC came out and said 10 percent and Gartner said 8. So, our range of 9 to 11 was slightly higher than Gartner's and IDCs was in the mid range. So, we feel like our analysis of the PC market, obviously we look at those data points, as well as others, was completely in line. So, I'm happy to talk to you about it after the call, one-on-one, if you want.

**JOHN DIFUCCI:** Okay. Thanks.

(Operator Direction.)

**JASON MAYNARD, Wells Fargo:** Hey guys. I just had a question on Windows 7. The premium mix shift was pretty good this quarter, I'm just curious in light of your commentary about the enterprise adoption cycle, is it fair to say you anticipate sort of similar levels playing out there in terms of how that percentage mix plays out for the rest of the year.

**PETER KLEIN:** Yes, generally speaking the biggest factor in premium mix is going to be the business mix. As we talked about we expected those dynamics to continue for the rest of this year.

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

(Operator Direction.)

**BRAD REBACK, Oppenheimer:** Hey, guys. How are you?

**PETER KLEIN:** Good.

**BRAD REBACK:** So, Bill, I think you had highlighted earlier in the call the big win with the Office 365 product in New York. It was a fairly competitive bid, it looks like. Could you guys maybe talk to what the economics of that look like to you from a profitability standpoint over the life of that contract. Clearly a lot of concern as people move to the cloud that that could negatively impact the P&L. So, maybe you could talk to a real-world example.

**PETER KLEIN:** Yes. No, happy to do that. And it's a great question. Bill touched a little bit on the business model. We talked about this a little bit at our analyst meeting. These cloud wins, and these cloud deals, it provides totally new economic opportunity for us. These are scenarios that we're not in today. In many cases, they're customers we don't have as customers today. In some cases, it's revenue that we may have that leads us to customers that we're not getting. The City of New York is a perfect example. We have others, like Starbucks, and others, where we're addressing totally new scenarios. Edu is a great example of that, it increases our penetration in that market. Similarly we've talked about how in the mid-market, we can really increase our penetration with services like this. So, that's sort of the business model of how it creates economic profit for us.

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

(Operator Direction.)

**EDWARD MAGUIRE, CLSA:** Yes. Good afternoon.

Looking at the double-digit growth in your business division products, could you talk about what's driving that, and how closely that growth may be linked to the Windows 7 activity?

**PETER KLEIN:** Yes. It's not really tied to the Windows 7 activity. It's more a function of the product cycle with Office 2010 and all the related products that go with it like SharePoint, and Exchange, and Lync. And, as we've touched on briefly before, the confluence of the macroeconomic environment picking up, and enterprises investing in their infrastructure, they're seeing the value that you get, the increased productivity, and the cost savings that you get, and that's what's really driving the interest in those products, and the new versions of those products just introduce capabilities that enterprises really want.

**BILL KOEFOED:** Thanks, Ed.

Operator, we'll take one more question, please.

(Operator Direction.)

**GREGG MOSKOWITZ, Cowen & Company:** Thanks very much. Good afternoon, guys.

Peter, you mentioned that the Windows Server premium mix was up 4 points, so I think you're now at 29 percent. And I believe at least a few quarters back Microsoft had suggested that it would be difficult to get this above 30 percent. Is that still kind of the ceiling we should be thinking about, or do you think given this momentum that you could drive the premium mix higher than that?

**PETER KLEIN:** Well, the first thing I would say is, the premium mix is over 20 percent. We haven't given an exact number on that. It's probably ‑‑ I think it's best to continue to track it and not put a set feeling or an expectation for it.

**GREGG MOSKOWITZ:** Thank you.

**BILL KOEFOED:** Okay. So that will wrap up our Q&A portion of today's earnings call.

As many of you know, today is a busy day for us here in Redmond, as we also have PDC going on here. I would encourage you, if you haven't, to listen to the replays of the keynotes that we've done at PDC. We also look forward to seeing many of you at a number of fall conferences we'll be participating in this quarter. For those of you who are unable to attend in person, you'll be able to follow our comments at Microsoft.com/investor. Please contact us if you need any additional details.

Thanks again for joining us today. And take care.

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