

**Microsoft First 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.

Note that all growth comparisons we make on the call today will relate to the corresponding period of last year. Unless specified otherwise, all impacted numbers for the current quarter have been adjusted for the $1.2 billion revenue deferral related to the Windows Upgrade Offer and Windows 8 pre-sales to OEMs, and the $189 million revenue deferral primarily related to the Office Offer.

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 October 18, 2013.

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.

Okay. And, with that, I'll turn the call over to Peter.

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

Our first quarter revenue was flat year over year at $17.4 billion, reflecting solid growth in multi-year licensing but a slowdown in transactional revenue.

Our transactional revenue, which includes our OEM business, was impacted by a challenging PC market, normal purchasing slowdowns in advance of upcoming product launches, and tough economic conditions, particularly in Europe.

This impact was offset by growth in multi-year licensing revenue which benefited from healthy renewals of enterprise agreements as customers continue to make long-term commitments to the Microsoft platform.

Our productivity and infrastructure offerings remain a top priority for CIOs.

• In productivity, our collaboration and communication solutions continued to perform well with double-digit revenue growth this quarter.

• In the datacenter, our virtualization capabilities and hybrid-cloud scenarios are enabling enterprises to move to the modern datacenter on their terms.

• And on the data platform, we are well-positioned to take share as customers increasingly turn to SQL Server 2012 for their mission critical workloads and business intelligence needs.

As part of our ongoing focus to increase the overall value we bring to our customers, we are enhancing our unique hybrid IT capabilities with targeted acquisitions like StorSimple and PhoneFactor. Acquisitions of industry-leading solutions like these accelerate our ability to help CIOs better manage their environments.

As I mentioned earlier, the PC market was challenged this quarter. In addition to a tough economic environment and competitive pressures, OEMs drew down their Windows 7 inventory as they began the transition to Windows 8. Our partners are building an incredible breadth of hardware. To date, we have certified over 1,000 unique Windows 8 systems including beautiful new tablets, convertibles, laptops, and all-in-ones. And there will be more to come.

As I look at where we are, we have kicked off the largest launch wave in our history, and in a twelve-month period, we will have refreshed nearly all of our major products. With these launches, you are seeing the investments we’ve made over a number of years converge. And more importantly, you are seeing us execute on our commitment to deliver devices and services that people love and businesses need.

Whether we build our own devices, as we have chosen to do with Xbox and Surface, or work with our partners to develop stunning new Windows devices, we will continue to offer consumers and businesses wide-ranging choices so that every user can get exactly what they want, at the price that is right for them.

With Windows 8 and our cloud services, we will delight users with an integrated experience across their devices. Right out of the box, Windows customers will be connected to unique communications, productivity and entertainment services from both Microsoft and our partners. With services like SkyDrive, which allows users to store and manage their data online, or the recently announced Xbox Music, which brings entertainment to the forefront, users can access their content seamlessly, from any device, at any time.

With the new Office, which will be made available in the coming months, we will enable productivity scenarios that take full advantage of the hardware coming to market, including new mobile form factors with touch and pen capabilities. And with Skype, Yammer, and other services, we put social directly into productivity and collaboration.

Within the enterprise, CIOs are using technology to drive their business strategy forward. Whether it’s making employees more productive, unlocking key business insights, or managing a growing number of devices, we are uniquely positioned to address their needs. Our products are scalable and flexible, and provide the lowest total cost of ownership.

As we enter this new era at Microsoft, there’s incredible opportunity for our partners, developers and customers, and we are well-positioned for sustained profit growth in the future.

With those thoughts, I will hand it back to Bill for more details on our results, and then I’ll come back to provide some thoughts on our outlook for the second quarter and full fiscal year 2013.

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

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

Revenue for the quarter was flat at $17.4 billion. Operating income was $6.7 billion, down 7%. Earnings per share was 65 cents, a decline of 4%. Cash flow from operations was roughly flat at $8.5 billion.

Foreign exchange had a $257 million or 2 percentage point negative impact to revenue this quarter, but the impact to net income was immaterial.

From a geographic perspective, this quarter we saw tough conditions in Europe, where revenue declined mid-single digits. In emerging markets, PCs were roughly flat, a significant deceleration from the growth rates we had been seeing previously. Our enterprise business in emerging markets continued its double-digit revenue growth.

When looking at our revenue mix, consumer and business transactional revenue declined, which is typical ahead of launches. Multi-year licensing revenue remained strong with 15% growth, representing roughly 45 percent of our total revenue for the quarter. When adjusted for the $1.9 billion cumulative impact of the Windows and Office revenue deferrals, unearned revenue was $17.7 billion, up 13%. Our contracted not billed balance was roughly $20 billion.

Now let’s move on to the PC market. We saw the overall PC market decline this quarter in advance of the launch of Windows 8, and in part due to competitive pressures and the challenging macroeconomic climate I noted earlier. Business outperformed consumer, and emerging markets outpaced developed markets, although at a reduced rate.

Moving to the results for the Windows Division, revenue declined 9% and lagged the PC market due to OEM inventory drawdown prior to the Windows 8 launch and the ASP dynamics of emerging markets relative to developed markets. We have discontinued the bridge to the PC market, as Windows 8 will be a platform across a broad set of form factors. As we go forward, we will provide updated information and metrics about our business performance in the new context.

The shape of Windows revenue this quarter was non-linear as revenue slowed down dramatically in the first two months, driven by the weak PC market dynamics. Revenue accelerated in September as OEMs started to build up for Windows 8 launch demand. Windows 8 OEM pre-sales revenue was roughly $800 million, approximately 40% higher than Windows 7 pre-sales revenue in the comparable launch quarter.

This quarter volume licensing revenue grew double-digits and our Windows 7 enterprise deployments continued to grow though at a slower rate than last quarter.

On Tuesday we announced pricing, market availability and opened pre-orders for Surface. Next week, on October 26th, we will launch Windows 8 and Surface. With a modern user interface, ability to support multiple form factors, and a rich platform to build apps, Windows 8 opens up significant opportunities for partners, developers and customers.

Now, I'll move on to the Microsoft Business Division, where revenue grew 1 percent. Business revenue grew 3 percent, and within that, multi-year licensing revenue grew 8 percent. Reflecting the PC market dynamics, consumer revenue declined 8 percent.

Last week, we released to manufacturing the new Office and announced that it will be generally available in the third quarter of fiscal year 2013. The new Office has a fresh look and touch-friendly interface that lights-up on Windows 8 devices. Since the customer preview in July, millions of people have downloaded the preview or signed up for the service and we feel great about the feedback and positive response from users. The new Office is also in the cloud and features social enterprise capabilities with SharePoint, Yammer and Skype. It is our most comprehensive Office release ever.

Our productivity server offerings continued to perform well. Exchange, SharePoint, and Lync collectively grew double-digits again this quarter. Lync revenue grew at an impressive rate of over 40% as enterprises chose our unified communications platform for their communication and collaboration needs.

Dynamics revenue grew mid-single digits and within that Dynamics CRM revenue grew over 30 percent. This quarter, we announced key milestones to our ERP portfolio with updates to Dynamics GP and NAV. Both these releases deliver great value to customers and partners through faster and more efficient implementations and compelling application functionality.

Now, let's move to Server and Tools, which posted another solid quarter with over 20 percent bookings growth and 8 percent revenue growth. Enterprise services grew 13 percent and multi-year licensing revenue grew 19 percent driven by new customers who are investing in our product wave. Transactional revenue declined this quarter driven in part by a slower server hardware market and customers switching to multi-year licensing.

In the datacenter, we are seeing strong adoption of our platform across cloud, on-premise, and hybrid scenarios. System Center revenue grew more than 20 percent and we launched Windows Server 2012 in September with increased management and virtualization capabilities. Customers like Acer, Equifax and Volkswagen Financial Services are already using its robust set of technologies and features including network virtualization, live migration, and continuous availability. We continue to gain virtualization share as customers like Pella and the City of Barcelona switch from VMware to Hyper-V and System Center to build private clouds with increased efficiencies and higher savings. In the public cloud we continued the pace of innovation and announced the release preview of Windows Azure Mobile Services which connects Windows 8 apps to a cloud backend hosted in Windows Azure.

As Peter mentioned, over the past few weeks we announced the acquisitions of StorSimple and PhoneFactor which will enhance our position in data storage and device management.

In our data platform business, SQL Server revenue continued to grow double-digits. SQL Server Premium revenue grew more than 20 percent, as customers continue to deploy it for their mission critical workloads, and business intelligence needs. By combining the power of SQL Server, SharePoint and Office, CIO’s can create scalable self-service BI platforms. Users can leverage these platforms to analyze and interact with data in bold new ways, make real-time decisions and gain insights from Big Data. We are seeing how SQL Server 2012 has raised the bar and positioned us to grow faster than the competition.

Next, I will move on to the Online Services Division, where revenue grew 9 percent. Online advertising revenue was up 15 percent, driven primarily by rate improvement in search, offset in part by a decline in display revenue. Operating performance improved by $150 million, or 29 percent. Increasingly, users are finding better search results at Bing. In blind tests, nearly two in three users choose Bing’s web search results over Google’s results. And over 10 million users have visited the ‘Bing It On’ challenge where they can compare Bing and Google head on.

In the Entertainment & Devices Division, revenue declined 1%.

While the console market was tough, Xbox maintained its strong share and had 49% of the U.S. market for the quarter. This holiday season we have a great lineup of games headlined by Forza Horizon and Halo 4, and complemented by a rich catalog of Kinect games. We continue to see strength in Xbox LIVE, where membership grew over 15%.

This week we announced Xbox Music, which leverages the cloud to integrate the music experience across the tablet, PC, phone and TV, and has a worldwide catalog of over 30 million songs. Xbox Music is the most comprehensive service available. It provides users unlimited streaming music on Windows devices, lets them play music based on similar artists and styles, and allows them to purchase songs and albums. There’s no other music service out there today that matches the capabilities of Xbox Music.

We are excited about the upcoming launch of Windows Phone 8. We have a strong device line-up and breadth of operators across key markets. We will share more about Windows Phone 8 at our event on October 29th.

Moving on to Skype. This quarter 120 billion minutes of calls were made on the Skype network, an increase of 58 percent. We continue to make progress with the integration of Skype into our portfolio of products, and have announced the upcoming federation between Lync and Skype which will allow users to access their contacts through a common interface. Skype is also central to communications in the new Office, and ‘Skype calling’ is included in the upcoming Office 365 subscription service.

I will now cover the remainder of the income statement and share some expectations going forward.

Cost of goods sold increased 10 percent, primarily due to Nokia platform payments, inclusion of Skype costs, growth in cloud infrastructure and enterprise services. As we look forward, excluding Surface, we expect COGS to grow high-single digits for the full fiscal year.

Operating expenses grew 2% to $6.5 billion. For the full fiscal year, we are reaffirming our guidance for operating expenses of $30.3 - $30.9 billion.

Other income this quarter was $226 million, driven by the gain from the MSNBC sale. Other Income 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 for the remainder of the year.

This quarter, our tax rate was approximately 19%. For the full fiscal year, we expect our effective tax rate to be 19 - 21%.

Adjusting for the impact of the Windows Upgrade and Office Offers, we expect unearned revenue will roughly follow historical sequential growth patterns for the second quarter.

We expect capital expenditures for the full fiscal year to be roughly $3.5 billion.

 This quarter we returned $2.9 billion to shareholders in buyback and dividends and raised the dividend 15% to 92 cents per share annually.

Now I will turn it back to Peter for our revenue outlook.

**PETER KLEIN, CHIEF FINANCIAL OFFICER:**

For the remainder of the call, I’ll discuss our revenue expectations for the second quarter and full fiscal year 2013.

Starting with 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%. As we noted last quarter, our customers are moving from transactional purchasing to premium products and multi-year licensing agreements. We expect product revenue to grow high-single digits for the second quarter and low double-digits for the full fiscal year. And we expect enterprise services to grow low double-digits for the second quarter and mid-teens for the full fiscal year.

In the Microsoft Business Division, multi-year licensing revenue, which is approximately 60% of the division’s total, should grow low double-digits for both the second quarter and full fiscal year. Excluding the Office deferral, transactional revenue, which is the remaining revenue in the division, should grow low-single digits in the second quarter, and mid-single digits for the full fiscal year.

As a reminder, when updating your Q2 models, you should defer between $850 and $950 million of revenue related to pre-sales into the channel and the Office Offer. Amounts deferred for pre-sales will be recognized upon general availability, while amounts deferred for the Office Offer will be recognized upon delivery, redemption, or the expiration of the program in the fourth quarter of fiscal year 2013.

Moving on to the Entertainment and Devices Division, while we have been maintaining our share leadership position, the console market continues to be challenged. As a result, we expect revenue to decline low teens in the second quarter, but to grow low-single digits for the full fiscal year.

In the Online Services Division, we look to build upon improvements in share and search monetization. For the second quarter and full fiscal year, we expect revenue growth to be consistent with the dynamics seen in the first quarter.

In the Windows Division, as a reminder, second quarter growth will reflect the recognition of $800 million of revenue from first quarter pre-sales, partially offset by roughly $100 million of additional deferred revenue related to the Windows Upgrade Offer. Remember that the Upgrade Offer expires at the end of February, at which time we will recognize all remaining deferred revenue.

Looking forward, we eagerly anticipate the launch of Windows 8. We are bringing a new range of capabilities and scenarios to Windows. And with support of system-on-chip architecture, we are moving beyond the traditional PC to the widest range of Windows hardware we have ever seen. New hardware will debut next week, and will broaden over the coming months.

With Windows 8, we are giving developers a modern platform on which they can build rich, immersive apps unlike any the Windows ecosystem has seen. The Windows Store offers developers attractive financial terms and broad reach. And with its grand opening next week, the Windows Store will have a strong line-up of apps. Just as with the hardware, the line-up of apps will become more robust over time.

In addition to delivering Windows 8 next week, we will also launch Surface. Designed to be the ultimate stage for Windows, Surface allows users to seamlessly transition between consumption and creation and is an example of the substantial innovation that is enabled by Windows 8. We are hard at work manufacturing the devices, and will ramp production over time.

October 26 only marks the beginning of a journey we will take together with our partners and developers. Our collective success will be evident over time as we change the way people experience the power of technology.

**Questions & Answers**

**RICK SHERLUND, Nomura:** On the Windows and Windows Live Division, there was no real guidance for the year. You just said you'd recognize all remaining deferred revenue. Can you just help us understand what the variables are that we should be thinking about other than what the PC market grows at? And by PC market, I think we need to define that as all Windows 8 compatible devices, including tablets. So, are there mix shift issues, the price you realize on a tablet versus a traditional notebook? What are kind of the variables we should be thinking about in terms of how to model Windows and Windows Live revenues for the year?

**PETER KLEIN:** Actually, that's exactly right. One of the exciting things about Windows 8 is how it really redefines how people think about devices and the experiences they get across those devices. And up until now, that's sort of narrowly been defined as PCs or tablets, and customers have been forced to choose and make tradeoffs, frankly, of what they get. With Windows 8, you can kind of get whatever you want at whatever price point you want. So, whether you want a convertible with touch and pen and integration with your line of business apps; whether you want a tablet for great information and communications and entertainment; whether you want a touch ultrabook; all those things come into play and all those things are available with Windows 8.

I think over time we're going to see how that plays out, and that's the opportunity for us. And it's really a factor of thinking about how all those are going to play against each other.

**HEATHER BELLINI, Goldman Sachs:** Great. Thanks. Thanks, Bill and Peter. Just to Rick's question a little bit more specifically, and I was on another call before this, and maybe you said it. But can you give us a sense of your expectations for Surface in the quarter, or if you can't do that can you give us a sense for what preorders were thus far just to give us a sense of how that's ramping out of the gate, and what your expectations are for that?

**PETER KLEIN:** Thanks, Heather. Right now we're focused on our launch, both of Surface and Windows 8 next week. And so that's really what we're excited about and the opportunity to show people all the great devices, and all the great capabilities, and so we're not talking about that now.

As we mentioned on the call, we're working hard on production, we're ramping production. We're excited about what we've heard so far, the feedback has been great, the reviews have been really good. I think that demonstrates what we've been talking about, the capabilities and experiences that Windows 8 delivers across various form factors.

**ADAM HOLT, Morgan Stanley:** Hi, thanks, guys. I'm going to shift to the server and tools business. The billings were a little bit better than we thought, but the recognized revenue and the forward guide was a little bit lighter than we had been looking for and I just wanted to drill into some of the expectations for the forward guidance. Are you assuming the transactional environment remains weak? Do you still think you can out pace the transactional piece in terms of your business and what should we be thinking about in terms of the convergence of billings and recognized revenue? Thank you.

**PETER KLEIN:** Thanks, Adam. What we are continuing to see is the migration from transactional revenue to multi-year licensing agreements, which is great, because it's one of the things that's driving the business, which is the vision we have for the roadmap, the resonance that has with our customers. And so they're making long-term commitments to the platform and so it's one of the reasons we gave you the bookings number and the multi-year licensing revenue number, 20 and 19 percent, because that's what you're seeing.

So, as that's growing faster than the transactional, you'll see the bookings and the backlog grow, and the recognized will follow over time. So, that's really the thing to watch for in server and tools, and we continue to be very bullish on opportunity, sort of across the board whether that's through Windows Server, System Center, what we're doing in the private cloud and public cloud, and certainly with SQL Server. So, that trend that we're seeing and the migration to the multi-year licensing agreement is driving that business both now and for the long-term.

**BILL KOEFOED:** And just to build on that, this is one of the strongest bookings quarters we've had in the last several years, so again, for a $19 billion business to have over 20 percent bookings growth we feel obviously in addition to all the products that have come so far this year, I think we feel pretty excited about the opportunity in that business. So, thanks for asking that question.

**MARK MOERDLER, Sanford Bernstein:** Thank you. So, a question, given the slowdown in the PCs, how should we think about the change, or what's going on in the Windows adoption process? Are we seeing continuation at the current rate, or is there some proportional slowdown in the rollout of Windows 7?

**PETER KLEIN:** We continue to see if you're talking about enterprise adoption, we continue to see that grow this quarter, although at a slower rate than we have in past quarters. But, that opportunity remains very large. We're over 50 percent deployed and remember the end of life for XP is about a year-and-a-half away. So, that remains a great opportunity for us that we see continuing on.

**MARK MOERDLER:** But, it is slowing a bit?

**PETER KLEIN:** It did this quarter.

**BILL KOEFOED:** It did, yes, just this quarter. And it's a summer quarter, so I don't know that I would read too much into just one period.

**WALTER PRITCHARD, Citi:** Thanks. Just a follow-on with some launch questions. So, there's sort of two changes here to the business that we'll see going forward. One is the hardware piece in Windows and the other is what looks like a pretty big ramp up on the retail side, with some store presence, understanding that the latter is probably in your guidance. Can you just remind us on the store side where you're allocating the expenses and, as that presence potentially grows over time, how you expect that to impact your financials? And then on Surface, should there be anything we think about, other than sort of a price times a unit and make a margin assumption. Are there any other nuances around the way you account for Surface in your financials?

**PETER KLEIN:** The first question was about the retail stores and where that's showing up?

**WALTER PRITCHARD:** Yes, where the expenses are.

**PETER KLEIN:** Got it. The expenses are in corp, and they show up a little bit in COGS, and a little bit in operating expenses. And sorry, what was the second part of your question?

**WALTER PRITCHARD:** Just on Surface, is there anything else we should be thinking about in terms of how to model the impact of Surface? We know the price. We can make a unit assumption. We can make a margin assumption. Is there any deferrals, any OPEX impact, any warrantees?

**PETER KLEIN:** No, you're thinking about it right.

**WALTER PRITCHARD:** Okay. Great, thanks.

**KASH RANGAN, Merrill Lynch**: Hey, thank you very much. As you enter the world of the new form factors, since you're coming a little bit behind, relative to Apple, what is the right way to think about your differentiation relative to the consumer market opportunity for tablets, and the enterprise market opportunity for tablets. Thank you.

**PETER KLEIN:** Well, I think one of our differentiations is we give everybody what they want for the purpose they want it. When I talk to CIOs, for example, in enterprises one of the things they're really excited about is that Windows 8 devices give them a chance for their employees, their users of the technology, to have the devices they want and bring to work, that they get the kind of manageability, security, integration with their line of business apps that they want. So, I think there's a big differentiation in the enterprise across all the form factors, especially tablets that are increasingly coming into the work place.

On the consumer side, I think there's a range, not only a range of price points and different kinds of form factors, but also unique and differentiated set of services and experiences that come with the device, including Office, including SkyDrive, including Xbox Music. So, I think across the board you see similar differentiation both in the enterprise and on the consumer.

**BRENT THILL, UBS:** Thanks. Peter, if Surface is successful shouldn't the COGS be well above the high single digit growth for the fiscal year? I'm just curious why you excluded or are you just waiting to see how the traction is before you give us more guidance, or what is the explanation for that?

**PETER KLEIN:** Yes, that's exactly right. We'll see how it goes.

**JOHN DIFUCCI, JPMC:** Thank you. I have a question on the deferred revenue specifically for the Windows business. Even if you exclude the adjustments, deferred revenue for this business increased in the quarter and you normally, or actually you always see a seasonal decline. I guess, can you talk a little bit about that? What do we see in there? Is this tied to multi-year deals in this business now, or is it something to do with some of these adjustments that maybe we're accounting for correctly.

**PETER KLEIN:** Great, thanks, John. It actually is that. It's multi-year licensing deals continuing to grow double digits. So, that's what's driving the deferred there. So, that's one sort of example of how enterprises are continuing to see value and adopting Windows.

**JOHN DIFUCCI:** Great. Thanks Peter.

**PETER KLEIN:** Thanks, John.

**COLIN GILLIS, BCG Financial**: Great, thank you. Looking at the server and tools line again, when the results first printed we were asked quite a bit if that was showing any weakness in the enterprise spend environment. It sounds like a lot of that was just driven by the rotation of multiple-year contracts. But, can you talk about the marketplace right now, and if the marketplace is weakening, do you find that to be an advantage, given the cost preferences in that line?

**PETER KLEIN:** It definitely is the migration from transactional licensing. Irrespective of weak market, strong market, we've got a great value proposition. It does play very well in tough macroeconomic times, because one of our great value propositions is the savings and efficiencies people get from using integrated technology across their stack at a really good price performance characteristic. So, I would say, we feel great about our value proposition in any environment. It does play well in a tough macro environment, but what we're seeing now in the financials, this is why we highlighted the bookings growth and the multi-year licensing growth, is related more towards the migration from the transactional business.

**COLIN GILLIS:** Great, thank you.

**PHILLIP WINSLOW, Credit Suisse**: Thanks, guys. I just have a question on the margins of Surface, kind of the high level. I don't want to know the exact margin percentage, but how did you guys price Surface relative to Bob. I mean, obviously, you guys have talked about this, but I'm including applied revenue amount for a Windows license, did you also take into account sort of I'd call it a weighted average attach rate of Office for a device, and then add on a gross margin fort the hardware, just kind of how you built up to that? And then just kind of at a high level what was the pricing thoughts behind Surface, was it to drive adoption of the platform, was it to actually to make this a business, and does that change at all near term versus longer term? Thanks.

**PETER KLEIN:** Yes, thanks. As with any pricing decision, it's really about the value proposition you had for your customers, and the degree of capabilities and value you're delivering to them at a variety of price points for what they want. And that's really fundamentally what drives all of our pricing decisions. Do we have a really compelling value to offer our customers for the capabilities that we're delivering. And that's what we do across all our business, and that's what drives our economic performance.

**ED MAGUIRE, CLSA:** Looking at how you're beginning to combine product and services with Office, Office 365 for home, and then the bundling of services with Windows RT, looking forward is this going to change the way that you allocate what might have been transactional revenues in the past to a combination of transactional and services revenues?

**BILL KOEFOED:**  Yes. Generally that is correct. As we move to more delivery as services, that will show up as services revenue as well as transactional revenue. That is correct. But I do think it's a long-term trend, and you saw that in the commentary that we made around our Server and Tools business, but we are having people that are making longer term commitments to Microsoft, and that shows up in our annuity business in server, it shows up in things like Office 365 where people are having a subscription service. It shows up in things like Xbox Live, which you've seen happening over the last couple of years. So, Ed, I think you've got it right that we're seeing a lot more people that are committing to a longer-term relationship with Microsoft, which is clearly what we're striving toward.

**BRAD REBACK, Stifel Nicholas:** Great. Thanks a lot. Peter, historically the transactional aspect of MBD has followed the PC market roughly. Is there any reason to think that that's not the case here for the final three quarters?

**PETER KLEIN:** Yes. In general, there are two things that impact the transactional business of MBD, one is PC market, and the other is product cycles. So, one of the things we also see in the period right before launch of a new product on the transactional side in businesses is a slowdown, and also it does track the PC market. So, those are the two things to keep an eye on.

**RAIMO LENSCHOW, Barclays:** Thank you. Peter, historically when we had the launch of a Windows product, there was a big uptake, especially on the consumer side. Now this time around, it's obviously a different form factor set they're playing in, and consumers need to get used to it. How do you think about the momentum we should see in terms of the first quarter out, the second quarter out, et cetera? Thank you.

**PETER KLEIN:** Well, without giving specific guidance, we're certainly very excited about the capabilities that come with Windows 8, and the excitement that comes from that, and we're excited to talk about at the launch next week. I think I'm encouraged by what we saw from the Windows 8 selling that we've seen so far, the 40 percent growth over the comparable period last time. And so, we'll just keep an eye on that and watch as we get further into the launch.

**GREGG MOSKOWITZ, Cowen and Company:** Thank you. This is somewhat of a follow up to Raimo's question. Over the past several months, many of those reviewing Windows 8 for PCs, while praising the significant innovation behind the OS, have also continued to focus on the dual interface, and the adjustment that users will have to make. Is that something that causes you concern just when it comes to initial adoption levels of Windows 8? Just wondering how you would think about that.

**PETER KLEIN:** You know, not a lot. I hear the feedback, and as a user we sort of gotten used to it very quickly. At Microsoft, when we do innovations historically across our products, oftentimes there is new things that come, and I understand initially people look at those things, and what we've seen over time is that those innovations have delivered way more value and way more productivity, and way more better usability. And so, I'm very confident that that is even more true with the great technologies and capabilities and experiences that we have with Windows 8.

**BILL KOEFOED:** And I think you have seen that in the reviews of people who have used it over a longer period of time. And, again, for those of you who will be hopefully using it early, you'll see that show up in your experience as well.

<End of Q&A>