

**Microsoft Second 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 January 24, 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 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 everyone for joining us. I am pleased to welcome Chris as the new head of Investor Relations. Chris has been with Microsoft for over 16 years and has been in diverse Finance roles, which gives him a good background for this role. I also want to thank Bill for all he has accomplished over the past four years and congratulate him on his new role as the CFO of the Skype division.

This quarter, we had record revenue of $22 billion and record earnings per share of $0.81. It has been an exciting quarter with the launch of Windows 8 and Windows Phone 8.

In the enterprise we continue to see solid demand for our business products and services with particularly strong growth in multi-year licensing. Multi-year licensing revenue benefited from healthy renewals of enterprise agreements as customers continue to make long-term commitments to the Microsoft platform.

Our robust portfolio of enterprise products and services enables CIOs to build efficient infrastructure, unlock business insight, improve productivity, and support bring-your-own-device.

* In the Data Center, recent releases of Windows Server 2012 and System Center 2012 are driving customer wins and strong renewals. Our Cloud OS roadmap uniquely positions us to support the hybrid infrastructure needs of CIOs by providing one consistent platform that can span their own datacenter, a partner’s datacenter or Windows Azure with ultimate flexibility, portability and scale.
* On the data platform, we are growing our revenue share as enterprises continue to move mission-critical workloads to SQL Server and deploy it for their business intelligence solutions.
* In productivity, we are excited about the upcoming launch of the new Office and how it redefines user experience with mobility, social and cloud features. The new Office features a fast, fluid design that takes full advantage of the new Windows interface. With Skype and Yammer integration, it unlocks new experiences for communication and collaboration and brings social directly into productivity scenarios.
* With Windows 8, businesses will now be able to give their employees thin and light devices without compromising on security or manageability. Windows 7 momentum in the enterprise continues and today, over 60% of enterprise desktops worldwide are on Windows 7.

We have talked about Windows 8 as Windows reimagined, from the chipset to the user experience. As we undergo this transformation it is important for us to bring the entire ecosystem along with us. With the launch in October, we collectively took the first of many steps in changing the way people use technology at work and at play. Since then, the number of Windows 8 certified systems has nearly doubled, the number of apps in the Windows store has quadrupled, and Windows users have downloaded over 100 million apps. To date, we have sold over 60 million licenses of Windows 8. Our partners, including OEM hardware manufacturers, app developers, and retailers, have worked hard to get us to where we are today. It’s early days and an ambitious endeavor like this takes time. Together with our partners, we remain focused on fully delivering the promise of Windows 8.

As part of our work to advance the ecosystem, we launched Surface Windows RT last quarter. Surface is one part of the overall Windows 8 story. With tight integration across hardware and software, Surface highlights the unique innovation enabled by Windows 8. We launched it exclusively in our stores and in select geographies, and are expanding our retail and geographic footprint.

As we look forward, we strive to deliver seamless experiences across hardware, software and services. Windows 8, Windows Phone 8 and Xbox 360 provide a similar look and feel to users. This consistency, complemented with our cloud services like Bing, SkyDrive, Xbox LIVE and SmartGlass, unifies the consumer experience.

In the Enterprise we continue to design and deliver world-class cloud solutions that allow our customers to move to the cloud on their own terms.

The compelling experiences we deliver across our devices and services, as well as our large partner and customer base, uniquely positions us for sustained future growth.

In summary, this quarter the strength of our product portfolio delivered record revenue and earnings per share. As we enter calendar year 2013, there’s tremendous opportunity for our partners, developers and customers to leverage the capabilities and scenarios our significant product releases have enabled.

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

**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.

Revenue for the quarter was up 5% to $22 billion. Operating income was $8.3 billion, up 4%, and earnings per share was 81 cents, also up 4%.

Foreign exchange had a $200 million, or 1 percentage point negative impact to revenue this quarter, and a $154 million or 2 percentage points negative impact to net income.

From a geographic perspective, we saw growth return in developed markets, and saw mid-teens growth in emerging markets.

Bookings were strong, growing 11%, as we continued to see customers making long-term commitments to our products. You see the results in the following metrics:

• Multi-year licensing revenue grew 15%

• Unearned revenue grew 13% to $17.4 billion

• And our contracted-not-billed balance was over $21 billion

Moving to Windows, this quarter total revenue grew 11%. Within that, OEM revenue outperformed the underlying x86 PC market, reflecting increased demand in our distribution channels. While inventory levels ended the quarter at slightly higher levels than the prior year, we believe them to be in a healthy range given the recent launch. Non-OEM revenue grew over 40%, driven by Windows 8 upgrades, sales of Surface and double-digit growth in volume licensing.

Within the x86 PC market, we saw similar trends to prior quarters, with emerging markets outperforming developed markets, and business outperforming consumer. The consumer segment was most impacted by the ecosystem transition, as demand exceeded the limited assortment of touch devices available.

Next, I’ll walk through our Server and Tools business, which posted another solid quarter with 9 % revenue growth. Product revenue grew 9% and within that, multi-year licensing revenue grew 17%. On the strength of both new and existing customers, bookings grew a solid 15%.

For the modern data center, we continue to be on the forefront of innovation with our Cloud OS roadmap, which provides a flexible platform for CIO’s to manage their infrastructure, applications and data. With the launch of Windows Server 2012 in September, we delivered a cloud optimized operating system, and have continued to gain share in virtualization. To further strengthen our Cloud OS platform, we have introduced a steady stream of innovation in Windows Azure including Virtual Machines, Media Services, Web Site Services and Mobile Services. Our management product, System Center continues its momentum and delivered 18% revenue growth.

In our data platform business, SQL Server revenue grew 16%, driven by strength in SQL Server Premium. Revenue growth continues to outpace the market, as customers increasingly use SQL Server for their mission critical applications and business intelligence needs, making it the most pervasive data platform. On the BI side, we’re delivering on our strategy to enable analysis of all types of data, while also accelerating time to insight. We’re empowering organizations to realize the power of Big Data as Hadoop is now compatible on Windows Server and Windows Azure. With SQL Server 2012, we took the next step forward in advancing in-memory capabilities, and see tremendous opportunities ahead.

Now I'll move on to the Microsoft Business Division, where revenue grew 3%. Consumer revenue declined 2% with x86 PC market dynamics being partially offset by gains in attach. Businesses are choosing Microsoft as their productivity platform for the future. This is evidenced by the healthy 18% bookings growth and near historical high renewal rates for Office. Business revenue grew 4%, and within that, multi-year licensing revenue grew 10%.

Our productivity server offerings continue to perform well, and again this quarter, Exchange, SharePoint, and Lync collectively grew double digits. Lync revenue grew at an impressive rate of 35%, as customers continue to be drawn to both the enhanced productivity that it enables, and also the economic benefits of our solution.

Next, I’ll move on to the Online Services Division, where revenue grew 11%. Online advertising revenue was up 15%, driven by significant search rate improvements, offset in part by a decline in display revenue. With revenue growth, and ongoing expense management, we delivered another quarter of operating performance improvement.

In the Entertainment & Devices Division, revenue declined 2%. In the important holiday season, Xbox continued its leadership position in the U.S. console market. Halo 4 launched in November, and has already become the best-selling title of the critically acclaimed gaming franchise. We did defer $380 million this quarter for games where the buyer has rights to receive content in the future. The video game Deferral was included in the Q2 guidance, and we expect it to be recognized in Q3. We also continued to expand the content available in Xbox LIVE, further solidifying Xbox LIVE as the premier entertainment service in the family room.

Windows Phone saw strong growth in both phone and patent licensing revenue. In November, we launched Windows Phone 8, with our strongest lineup of both carriers and devices. Windows Phone sales were over 4 times higher than they were last year. And at CES this year, more partners were announced, as the Windows Phone ecosystem continues to grow.

Skype had 138 billion minutes of calls on its network this quarter, which was up 59%.

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

Cost of goods sold increased 1%, due to the full quarter of Nokia platform payments, Surface, and growth in cloud infrastructure, partially offset by declines in Xbox consoles.

Operating expenses grew 10% to $8.0 billion, primarily related to marketing for product launches.

This quarter, our tax rate was approximately 18%. And finally, and we returned $3.5 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’ll discuss our expectations for the third quarter and full fiscal year 2013.

Looking ahead with Windows, we know that our growth 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. One of our biggest partners, Intel, not only delivered the Clover Trail chip this year, they have said they will deliver their next generation chip, Haswell, in 2013, which will enable even more advances in the device market. This is just one example of the innovation we are seeing from our chip partners.

We also need to continue to work with our hardware partners as they create thin and lightweight devices on both x86 and ARM chipsets that offer compelling touch experiences that bring Windows 8 to life. You started to see the next wave of Windows devices at CES, and collectively we will work to ensure that we have the most compelling devices – and the right mix of devices – in the marketplace.

During the quarter, we launched the first device in our Surface family of products. We recently increased production and expanded distribution to third party retail partners. Next month, we will make Surface Windows RT available in 14 additional countries. At the same time, we will also launch Surface Windows 8 Pro, which provides the power and performance of a laptop in a tablet package. With the broadening of the Surface lineup, we will continue to highlight the power of Windows 8 tightly integrated with fantastic hardware.

On the app front, we are deepening our engagement with developers. While the number of apps in the Windows Store has quadrupled since launch, we clearly have more work to do. We need more rich, immersive apps that give users’ access to content that informs, entertains and inspires.

While there is a lot of work ahead of us, we are incredibly excited by the opportunities to both broaden and enrich the Windows ecosystem. With the launch of Windows 8 and Windows RT, we are positioned for growth across a massive addressable market from tablets to laptops and Ultrabooks to all-in-ones. We will continue to work closely with our partners through this transformation as we collectively reimagine Windows.

As you update your models remember that the Windows Upgrade Offer expires at the end of February. At that time, we will recognize $1.1 billion, which is all of the remaining deferred revenue related to the Upgrade Offer.

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 product revenue to grow low teens for the third quarter and low double-digits for the full fiscal year. And we expect enterprise services to grow mid-teens for the third quarter and 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 third quarter and full fiscal year. Excluding the Office deferral, transactional revenue, which is the remaining revenue in the division, should outperform the x86 PC market in the third quarter and for the full fiscal year.

As a reminder, when updating your Q3 models, we expect to recognize between $250 and $300 million of revenue related to pre-sales into the channel and the Office Offer. We expect most of the remainder of the deferral to be recognized at the expiration of the program in the fourth quarter of fiscal year 2013.

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

Moving on to the Entertainment and Devices Division, in the third quarter, we expect to recognize $380 million related to the video game deferral. Excluding recognition of deferrals, we expect revenue to grow high-teens in the third quarter and low-single digits for the full fiscal year.

Switching to overall cost of goods sold for the company, COGS growth will continue to be impacted by the changing mix of revenue as we have seen in the past few quarters. As we look forward, excluding Surface, we expect COGS to grow high single-digits for the full fiscal year.

We are reaffirming our full fiscal year guidance for operating expenses of $30.3 to $30.9 billion.

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 one another for the remainder of the year.

We expect our effective tax rate to be 17 to 20% for the full fiscal year, and we expect capital expenditures to be about $3.5 billion for the full fiscal year.

For the third quarter, excluding the impact of deferrals, unearned revenue should roughly follow historical seasonal patterns.

In summary, we delivered solid financial results for the second quarter. We have good product momentum in the market, and are excited about the opportunity to help our customers take advantage of the advancing trends in technology.

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

***Questions and Answers***

**PHILLIP WINSLOW, Credit Suisse:** Hi. Thanks guys and congrats on a good quarter in a pretty tough macro environment.

I just want to spend a moment on Surface. You obviously talked about ramping up production and distribution of that. Just what are some of your goals as you look at Surface RT and Pro for this year? And within that context how should we think about the profitability of the Surfaces? Thanks.

**PETER KLEIN:** Thanks, Phil. As we said, we think of Surface as one part of the overall Windows 8 story. Certainly this quarter it was a contributing factor to the revenue growth in the Windows business. And what it does is it sort of highlights some interesting innovation that can happen to sort of demonstrate the power of Windows 8 when tightly integrated with hardware and software and some new categories of devices. And we've obviously had some limited distribution this quarter in our stores and as you know we're excited about expanding that. So, you know our goal is to continue to build that business, to highlight the incredible power of Windows 8 in an interesting set of devices. We're going to expand geographically. We're going to expand the product lineup. We're going to expand retail distribution and capacity. So, we look forward to sort of continuing the growth of that business.

**WALTER PRITCHARD, Citi:** Hi, thanks. I'm just wondering, Peter, if you could talk about, obviously one of the big differences here between your devices in the market and some of the competing devices, I think the price point of touch machines, Windows devices are much higher? And I'm wondering if you could just talk about what you've learned here in the first three or four months of the Windows launch, how important price is to the customer base in terms of driving units and what do you think the outlook is in terms of getting price points down the devices in aggregate, in order to potentially drive some demand?

**PETER KLEIN:** Thanks, Walter. We learned a lot this quarter. We learned a lot about the types of experiences and scenarios and to some extent the price points customers are looking for from their devices. We saw some really great demand for some of the touch devices that we've brought to market. In some cases we didn't have the supply that we needed to satisfy that demand. I think from a price point we learned I think what we've always suspected, which is there's segmentation and differentiation. One of the powers of the Windows ecosystem, obviously, is the variety of devices and form factors and experiences at a variety of price points.

And I think we learned that that continues to be important. And as I said, we're working very closely with both our chip partners, as well as the OEMs, to bring the right mix of devices, which means, to your point, the right set of touch devices at the right price point, depending on the unique needs of the individual. I think we learned a lot about that and one of the things you'll see is a greater variety of devices at a bigger variety of price points that kind of meet the differentiated needs of our consumers.

**RICK SHERLUND:** MBD, I just want some clarification, because the revenue growth is a little slower than I would have thought. But, it looks like what we're seeing is this transition in the business. It looks like it's more instead of business transactional it's more multi-year licensing. And the bookings growth would suggest that business is changing to be more revenue over time versus up front. I just wanted clarification, if I'm thinking about that correctly.

**PETER KLEIN:** Yes. Thanks, Rick. You're thinking about it absolutely correctly. We've seen big increases in the multi-year annuity business. Bookings growth was very strong. And so you are seeing that transition to sort of a long-term commitment to the business. Secondarily, this quarter, obviously in a pre-launch quarter, cyclically you tend to see a slowdown in the transactional business, as well. But, that was secondary to this longer-term trend of transition to a multi-year commitment.

**ADAM HOLT, Morgan Stanley**: Great, thank you. Sorry to ask a model question, my question is about cash flow and I guess two factors around cash flow. Could you just drill in a little bit into the delta between bookings growth and billings growth in the quarter and then could you also just touch on the inventory in the quarter? It looked like it was a little above what it normally is? Thank you.

**PETER KLEIN:** Well, as always, the sort of difference between bookings growth and billings growth is going to be a function of the mix of long-term agreements, right, because our multi-year licensing agreements are three-year agreements. And so bookings will include all of the revenue from those agreements. And then typically those are billed a year at a time, so the billings growth will be sort of that one year of billings. So, to the extent we see this sort of growth in a multi-year licensing business you're going to see a build-up of bookings growth that's going to be fast. You're going to see a build-up of the deferred revenue and then the recognition on the income statement over time. So, to the extent we continue to see this transition to long-term commitments you'll expect to see that trend continue.

Your second question was on inventory. You say inventory, you mean on the balance sheet?

**ADAM HOLT:** Yes.

**PETER KLEIN:** The inventory is a function of kind of both what's happening in the Xbox business and Surface. They're sort of offsetting impacts this quarter. Some of it is from Surface and then some of it is from the Xbox business.

**HEATHER BELLINI, Goldman Sachs:** Great. I had a question about, Peter, you mentioned the renewal rates in MBD continue, I guess they're at a record and continue to move higher. I'm just wondering if you could share with us what's driving the increase and the renewal rates and how much runway do you have left there? And then actually I had a follow up on Adam's question about inventory, because it usually goes down in the December quarter. Obviously you have Surface now. So, it jumped up. But, did we see the traditional Xbox work down of inventory that we normally see? So, should we be looking at the fact that the delta between the draw down that you normally see and the fact that I think it went up, or was roughly flat this quarter was the result of Surface? Thank you.

**PETER KLEIN:** Okay. I'll start with your first question, which was MBD annuities?

**KASH RANGAN:** Renewal rates.

**PETER KLEIN:** I think it's a combination of things. Heather, as you know, over time we've been broadening the notion of how we think about productivity. So, I think it's a combination of a couple of things. One is just the product set. Lync is a big driver, SharePoint, Exchange. So the connection between the collaboration and communications technology and the enhancement to just the productivity applications themselves, I think Office 365 and the roadmap to the cloud is really exciting to customers. And part of the reason they're making a long-term commitment to MBD and to the Office and related products, is because they really --- our roadmap to the cloud really resonates with them and how they get there over time and how that works.

And I think also our roadmap, from a capability perspective and what's coming in the new Office, with social, again advances in the cloud, is really driving sort of a roadmap that's compelling to customers and so that's why they're making long-term commitments to the platform. So, that's great to see. And on inventory, yes, you're thinking about it right. I think you saw the normal sort of draw down from the Xbox business and any offsetting increase there was related to Surface.

**KASH RANGAN, Bank of America Merrill Lynch:** Hi, thank you very much and happy New Year. It's already quite a bit into the year. But, what I was wondering was, in the holiday season post a launch from Microsoft typically we get a big effect of the PC industry. It's happened every cycle. I guess we had some competition from tablets and what not. We didn't quite see the kind of whiz bang effect with a typical Windows launch. I'm curious to get your take on what is it that the media and the industry seems to have gotten wrong? What are the misperceptions about Windows 8 and how do you think the year is going to play out, as far as Windows 8 receptivity in a consumer market and a business market?

Thank you very much.

**PETER KLEIN:** Thanks, Kash.

Windows 8, as I talked about. Windows 8 is a big, bold re-imagining of Windows across the whole ecosystem. And I think this was the start of that process. I think we all collectively learned a lot about from the user interface to the touch devices. And as I tried to give context on the call, there's a lot of things we're working on with our partners that I think continues to drive this process forward over the next several quarters, whether it's the chipset, whether it's with developers for the kinds of applications that people want, and certainly for the kinds of touch devices at the right price points that consumers want. I think all of that is continuously improving. We're continuously learning. And it happens over time. This is a big, ambitious re-imagining of Windows. And this quarter was the first step in that process.

**KASH RANGAN:** Got it. So the traction, the ramp should get better over time, and we should not be judging the cycle by the December quarter necessarily?

**PETER KLEIN:** I highlighted the things that drive that.

**BRENT THILL, UBS:** Peter, just on the gross margins, they've been under pressure the last several years, and there's a lot of components that go in that you get to see, but certainly we don't get to see. Can you give us just the puts and takes of, perhaps, is there any change later in the year where you start to see some of the component of the COGS start to --- expenses start to come off, or not?

**PETER KLEIN:** Well, COGS is always going to be a function of the mix of the types of revenue. So, it's really going to depend on what your underlying assumptions are about the different components of the revenue, whether that's hardware related revenue in Xbox and now in Surface; whether it's multi-year licensing business in consumers and what's online services. So, at any point in time it's really going to depend on that mix of revenue, which is just going to cycle over time. So, we try to give you some sense for the rest of the year how we see that playing out in total at Microsoft. And, again, that's going to be a function of the mix we see between the various components.

**CHRIS SUH:** And reiterating Peter's guidance, excluding Surface. High single digits COGS growth excluding Surface.

**JOHN DIFUCCI, JP Morgan:**

Peter, you said that the Windows OEM revenue outperformed the x86 PC market. And your comments imply some Windows inventory build in the channel, which I believe you normally see during a quarter with a Windows launch as OEMs build inventory in preparation for the launch.

Would it be accurate to assume that the Windows out-performance was primarily, I mean relative to the PC market, was primarily due to the inventory build, or was there something else there happening? Was there anything else? You used to give us that bridge, which you haven't for a while now, but I'm just wondering if any of those other factors had a big influence?

**PETER KLEIN:** Yes. The three biggest components of the 11 percent total revenue growth and the 11 percent adjusted for the recognition of the deferrals in the Windows Business were the retail upgrade, the sales of Surface, and then multi-year licensing agreements within enterprises.

To your point, there was some tailwind from inventory, which was normally, as you highlight, kind of what we see in a launch quarter, and as Chris said it's within sort of the healthy range that we typically see, but that was some tailwind. But the three big impacts all up on the Windows revenue were the retail upgrades, sales of Surface, and the enterprise annuity business, which continues to grow double digits.

**JOHN DIFUCCI**: Any detection of any piracy effects or changes?

**PETER KLEIN:** We're on the same long-term trend on piracy that we've always been. That wouldn't highlight anything sort of specific this quarter, but as always we're fighting piracy across all of the dimensions, and the long-term trend should be good. But that will cycle up and down in any given quarter.

**COLIN GILLIS, BCG Financial:** Hey, Peter, the trend in OSD in terms of the smaller losses, is that a run rate that we can think about going into the March quarter? And also when you talked about the improvement in revenue per search is there any more color or quantification you can put around that?

**PETER KLEIN:** You know, on the first question, I looked at the guidance we gave on the revenue. We continue to work hard on the cost structure, but certainly as we highlighted the dynamics on revenue will be relatively consistent to what you see this quarter.

In terms of the monetization, it's what we've been very focused on in the work we've done with our partnership with Yahoo!, and part of it is the quality of the searches that we've been doing. It's sort of the realization of all the work we've been doing on both the search engine as well as the ad platform to make sure it's finely tuned to deliver the best economic results. And that's what we've been --- we've been talking about this for a year-and-a-half, two years. We've been really focused on that with our best talent. And you start to see that paying off. That's what's driving monetization.

**BRENDAN BARNICLE, Pacific Crest Securities:** Thanks so much. Peter, you highlighted the market share gains you guys are seeing in SQL Server and specifically you talked about BI and mission critical applications. I was wondering if you could give us any more color on the use cases and applications where you guys are particularly seeing the biggest gains, and any impact that pricing may be having on that? Thanks.

**PETER KLEIN:** Yes. The biggest impact is the capabilities that we've delivered with SQL Server 2012. And in terms of the use cases, there's a couple of things that sort of fall into those buckets of mission critical and BI. In terms of mission critical, we're seeing large enterprise customers re-platform on SQL for any number of things underneath their ERP, underneath what other major sort of LOB apps they have that sort of drive their business. And that's really an emerging trend with 2012 and what that does. That's really advanced.

And I would add that that's been one of the drivers of our transition to multi-year licensing, because now we're seeing customers commit more and more to SQL as part to their multi-year enterprise agreements as well.

On the BI side, the combination of SQL as well as SharePoint and Excel is really compelling to customers in terms of the business insights they can generate from their line of business application systems. And I think really the combination of the types of what you see front end on Excel on top of the SQL database has really been a powerful driver for both businesses, frankly. And that's a lot of what's driving the multi-year licensing business up for both MBD and STB.

**GREGG MOSKOWITZ, Cowen and Company**: Okay. Thank you. You had mentioned that over 60 percent of enterprise desktops now are running on Windows 7. Looking forward, how do you expect the cadence of migration activity to unfold from now until the termination of XP support and in early to mid-2014. Does it continue at a similar pace for a while, and at what point do we probably see this moderate?

**PETER KLEIN:** The one thing I would say is, not only are over 60 percent on Windows 7, but about 90 percent have expressed that they have a plan to do that. So, I expect to see sort of a steady drumbeat between now and the end of life for XP support in April 2014 for that to continue, because the incentive is there and the desire to do that has been expressed by our customers. So, I would expect to see that continue over the next year, year and a quarter.

**RAIMO LENSCHOW, Barclays**: Thanks for taking my question. Just to follow on that one, you've had one quarter of Windows 8 now, what was the feedback that you had from the enterprise so far? Obviously, they're still in the middle of the Windows 7 upgrade, as well, but what's the point that they liked about Windows 8? Thank you.

**PETER KLEIN:** Yes, there's a couple of things. They like the ability to get thin, lightweight devices with the kind of security and manageability that they're used to, to manage their businesses. And also there's early interest in new applications being developed with the Windows 8 interface, which is a new way for their users to interact with their business applications. I think you'll see those two things are early information and driving sort of business interest in Windows 8.

**ED MAGUIRE, CLSA:** Thank you. Good evening. I wanted to follow up on Rick's question about the transition from the transactional to multi-year deals. How much of your --- this is going back to Rick's question --- regarding the transition of transactional to multi-year revenues, what in your business reflects the transition and purchasing of on-premise to hosted or cloud offerings, like from Office to Office 365, or server to Azure and other similar transitions?

**PETER KLEIN:** Well, a cloud purchase will sort of mirror a multi-year annuity purchase. It's a very similar way to accomplish the same thing. You're making a long-term commitment. The revenue is going to be recognized in a similar fashion. Today we see a hybrid where customers are buying their multi-year enterprise agreements, they'll also add on some cloud services with that. But, it will manifest itself in our financial results in a very similar way.

<END Q&A>