Presentation

Operator

Welcome to the Microsoft's Fourth Quarter Fiscal Year 2010 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Mr. Bill Koefoed, General Manager, Investor Relations. Sir, you may begin.

William A. Koefoed
Former General Manager, Investor Relations

Thank you, Barb, and thank you, everyone, for joining us this afternoon. As usual, with me today are Peter Klein, Chief Financial Officer; Frank Brod, Chief Accounting Officer; and John Seethoff, Deputy General Counsel. Today, Peter will start with overall takeaways from the quarter and fiscal year. Then, I'll give you the details of our performance before handing it back to Peter, who will discuss our outlook. After that, we'll take your questions.

Our earnings press release today includes an addendum of financial highlights with detailed information about revenue, operating expenses and other items. We have also posted our quarterly financial summary slide deck, which is intended to follow the flow of our prepared remarks as well as provide a reconciliation of differences between GAAP and non-GAAP financial measures. You can find these documents at the Investor Relations website at microsoft.com/msft.

In addition, as part of our ongoing efforts to improve and incorporate your feedback, we will post today's prepared remarks to our website immediately following the call until the official transcript is available. Today's call will be 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 of the Microsoft Investor Relations website until July 22, 2011.

This conference call is protected by copyright law and international treaties. Unauthorized reproduction or distribution of this call or any portion of it without the express written permission of Microsoft may result in civil and criminal penalties. We will be making statements during this call that are forward looking. These statements are based on current expectations and assumptions that are subject to risk and uncertainty. 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 Factors section of our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

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

Peter S. Klein
Former Chief Financial Officer

Thanks, Bill, and good afternoon, everyone. I'm very pleased to share with all of you our strong financial results. We achieved record revenue, operating income and earnings per share for both the fourth quarter and the full year.

This quarter, our strong revenue performance was both broad and deep, with every business achieving double-digit growth. Strong sales execution closed the year with fourth quarter bookings increasing 27%. For the year, both the Windows division and Server & Tools business achieved record revenue.

We are equally enthusiastic about the customer and product momentum we've achieved this year across the breadth of our portfolio. Of course, I have to start by noting Windows 7, which has received tremendous market response. With $175 million licenses sold to date, it is the fastest-selling operating system ever and now runs on over 15% of all PCs worldwide. Capitalizing on the recovery of the server hardware market, Windows Server 2008 R2 has enjoyed strong demand and increased Windows Server market share.

With the launches of Exchange 2010, and most recently Sharepoint 2010 and Office 2010, we delivered key innovations in our productivity portfolio. Equally as important for our long-term growth, we made significant strides in our cloud initiatives by bringing Windows Azure to market and by increasing customer traction with our commercial online services.

Throughout the year, we continued to update and enhance Bing, which has now achieved 13 consecutive months of market share growth. And finally, we focused on consumers with our new Xbox 360 console and the announcements of Connect and Windows Phone 7 coming to market this holiday season.

Meanwhile, as a result of our ongoing commitment to managing costs, we held annual operating expenses roughly flat. Our continued revenue strength and cost discipline drove yet another consecutive quarter of margin expansion and record annual profits in the Windows division, Server & Tools business and Entertainment and Devices division as well as the company in total.

We grew full year operating income by almost $4 billion and generated operating cash flow of $24 billion. Of this amount, we returned about 2/3 or almost $16 billion to shareholders in the form of stock repurchases and dividends.

Finally, I'm particularly pleased by our growth in earnings per share of 50% for the fourth quarter and 30% for the full year. So it's been a great fiscal year and an outstanding fourth quarter. With those remarks, I'll now turn the call over to Bill to provide more details on the quarter.

William A. Koefoed
Former General Manager, Investor Relations

Thanks, Peter. As I review this quarter's performance, keep in mind that all growth comparisons relate to the corresponding period of last year unless I specify otherwise.

As Peter noted in his opening remarks, we finished the year with terrific financial results. Total revenue for the quarter grew 22% to over $16 billion, a record fourth quarter result. Windows, Online Services, Entertainment and Devices, Server & Tools, the Business division, each of our operating segments grew revenue double-digits this quarter reflecting broad-based strength across all of our businesses. Fourth quarter GAAP operating income grew 49% while EPS grew 50%.

Looking at the full year and adjusting for the Tech Guarantee, we had four consecutive quarters of margin expansion with the EPS growing faster than revenue every quarter. Operating cash flow was up 46% to a fourth quarter record, $5.6 billion. As for the year, operating cash flow surpassed $24 billion as Peter noted, also a record.

Customer demand was strong across the breadth of the Microsoft portfolio this quarter as we saw total bookings growth accelerate to 27%. In the Enterprise, businesses continued to invest in and commit to the Microsoft platform. Sales execution and Enterprise Agreement renewal rates have improved as unearned revenue at the end of the quarter was $14.8 billion, up a very healthy 21% sequentially. The contracted not billed balance ended the year over a record $15 billion.

The small and midmarket customer segments continued to experience robust growth and was up approximately 20%. Finally, continuing a trend this year, consumer demand was fantastic with growth in Windows, Office, Search and Xbox. Geographically, we saw strength across all regions led by emerging markets. Growth in the U.S. improved this quarter, while demand in Europe remained healthy.

The PC market continues to thrive, and we estimate the market grew between 22% and 24% with both consumer and business growing in the same range. From a geographic perspective, emerging markets remain a significant driver of the PC market with almost twice the growth of mature markets.

With that PC backdrop, I'll move on to the Windows and Windows Live division. Windows revenue grew over $1 billion dollars or 32% this quarter when adjusted for the Windows Tech Guarantee last year. Total OEM license growth was 26% and outpaced the PC markets for the third quarter in a row. Consumer and business licenses both grew approximately 26%. The business PC refresh cycle has accelerated, and we recorded the second straight quarter of double-digit business license growth.

As in past quarters, to help you bridge PC growth to OEM revenue growth, we have provided a reconciliation slide in our earnings deck. At 31% growth, adjusted Windows OEM revenue outgrew PC shipments by seven percentage points this quarter. The hardware segment mix was a three-point headwind to revenue. As I mentioned earlier, emerging markets continued to outpace mature markets.

Windows attach and inventory drove six percentage points of growth. We exited the quarter with normal inventory levels and continue to benefit from solid attached gains in both Business and Consumer.

Finally, up sell and channel dynamics drove seven percentage points of growth reflecting a higher Windows 7 offering mix. Enterprise's option of Windows 7 accelerated and the non-OEM portion of the Windows division grew 36%, driven by an increase in volume licensing to businesses and retail sales of Windows 7.

Clearly, the Windows franchise is thriving. Importantly, customer satisfaction for Windows 7 is incredibly high at 94% and businesses are deploying Windows 7 in the Enterprise. In the browser, IE8 is now the fastest-growing and most popular Web browser in the market with IE9 coming soon.

Now let's move to Server & Tools, which posted 14% revenue growth in the fourth quarter and had a record year with $14.9 billion of revenue. We estimate the underlying server hardware market grew 25% to 28%. Non-annuity revenue grew approximately 20%. Windows Server grew with the market, while SQL Server 2008 R2 and Visual Studio developer tools also contributed to the growth.

Annuity revenue, which is approximately 50% of the business, grew about 15% with improved Enterprise demand. From a product perspective, Windows Server, SQL Server and System Center all experienced double-digit growth. Enterprise Services about 20% of revenue grew 3%.

Windows Server continues to gain share as businesses replace and procure new hardware in the data center. We estimate Windows server grew its market share over one percentage point while at the same time increasing premium mix to about 25%. Our virtualization suites almost doubled this quarter.

In addition to the share gains in the traditional Server market, Microsoft is leading the way to the cloud with our Windows Azure services platform. Just last week, at the Worldwide Partner Conference, we unveiled a number of new cloud innovations and partnerships, further increasing the alignment between our on-premise Windows Server, SQL Server and System Center products with the Azure platform.

Next, I'll move on to the Online Services division, which grew 13%. The Online advertising component of the division grew 19% primarily driven by our Search business, which again outperforms the market. We continue to be encouraged by Bing's ongoing share gains due to the pace of exciting innovation and differentiation it brings to the market. June marks the 13th consecutive month of share gains in the U.S., which is now up over four points since launch.

Turning to the Microsoft Business division, revenue grew 15%, and Office 2010 is off to a great start. Consumer revenue, which includes OEM and retail, grew 51% following the launch of Office 2010, heading back into the back-to-school season.

The business portion of MBD grew 8%, non-annuity license sales jumped 15% trending toward PC shipment growth as expected. The annuity licensing portion of the business grew 6% driven by an increase in Enterprise demand. Office and the integration with SharePoint, Office Communications Server and Dynamics CRM had strong demand, and each of these products grew double-digits this quarter.

The cloud enhances these productivity scenarios, and our customers are purchasing suites of our online services at an increasing pace. 70% of our business productivity online seats represent new business to Microsoft.

Let's move on to the Entertainment and Devices division, which grew 27%. Gaming revenue grew 30% as we sold 1.5 million consoles, a unit increase of 26% taking share as we grew faster than the overall market. Xbox Live continues to be a tremendous asset with over 25 million members. This year marked the first time that Xbox Live digital marketplace revenue exceeded subscription revenue, illustrating the services' increasing level of customer engagement and monetization.

Non-gaming revenue was up 23% driven by growth in Windows Embedded and sales of PC accessories that generally align to PC market growth. This quarter at E3, we unveiled Kinect, the Xbox 360 motion sensor, which will enable you to play games and control your music and movies with just your voice or a wave of your hand, no controller required. Earlier this week, we announced product and pricing for the all-new Kinect experience. The Kinect experience, with more than 15 games available this holiday, begins in North America on November 4.

Now let me cover the remainder of the income statement. Foreign exchange had a 2% positive impact to revenue this quarter. We experienced a headwind from the euro as one would expect, but this was more than offset by our hedging program and the dollar weakening in other currencies. Cost of goods sold increased 23% to $3.2 billion driven primarily by increased online costs, royalties and other charges.

Operating expenses were $6.9 billion in the quarter under our guidance range, and we are very pleased with the Q4 execution and fiscal discipline. Headcount decreased 4% year-over-year. We repurchased $3.8 billion of shares and paid $1.1 billion of dividends.

So to wrap up, our product cycle momentum continues with the release of Office 2010 and the breadth of our portfolio which drove record results. Our cost discipline remains strong. In the cloud, we have great momentum and are seeing businesses invest in the Microsoft platform. And with that, I'll hand it back to Peter, who's going to discuss our business outlook.

Peter S. Klein
Former Chief Financial Officer

Thanks, Bill. I'll now share our thoughts on the first quarter and total fiscal year 2011. We are entering the year with great momentum. We are encouraged by the resurgence in business PC shipments and expect the business PC refresh cycle to continue through fiscal year 2011. The recent refresh of our Enterprise product has positioned us well to meet customers' needs and they return to investing in information technology.

Turning to our outlook by business. We expect Windows division revenue to grow roughly in line with PC shipments for the first quarter and full year, excluding the $700 million revenue impact from the Windows 7 retail launch and $276 million from the Technology Guarantee revenue carried over from fiscal year 2009. For the Microsoft Business Division, consumer and business non-annuity revenue, approximately 40% of the total, should continue to track with their PC shipment growth rates for the first quarter and full year. Annuity revenue for the first quarter and full year should grow low- to mid-single digits.

Moving to the Server & Tools business. For the first quarter, we expect non-annuity revenue to be up mid- to high-single digits as first quarter bookings are sales cycle driven and tend to be the softest seasonal quarter irrespective of hardware shipments. For the full year, we expect non-annuity revenue to generally track with the hardware market. We expect Annuity revenue to grow roughly high-single digits for the first quarter and full year. Enterprise Services revenue should grow mid-single digits.

For the Online Services division, our online advertising business should outperform the overall online advertising market. Regarding our Search partnership with Yahoo!, we are working closely with them to migrate both algorithmic and paid traffic in North America for this holiday season.

And finally, I'll cover the Entertainment and Devices division. Based upon the compelling wave of consumer offerings coming to market, we expect revenue will grow in the mid-teens for the first quarter and full year following its normal seasonal skew to the first half of the year.

Moving to cost of goods sold. Gross margins will be impacted by product mix and particularly by the increase in hardware sales that will drive growth in the Entertainment and Devices division. We remain focused on diligently managing our cost structure and are lowering our full year operating expense guidance to between $26.9 billion and $27.3 billion, which includes our estimate of Yahoo! Search integration expenses. We expect our effective tax rate to remain approximately 25%.

Pushing to the balance sheet, we expect that the first quarter unearned revenue balance will track to normal historical patterns on a sequential basis after adjusting for the impact of Tech Guarantees in the prior year. Capital expenditures for fiscal year 2011 will be about $2.5 billion. This will be the second year in a row in which CapEx spending will be lower than depreciation expense. We will continue to generate strong free cash flow and remain committed to returning capital to shareholders through dividends and stock repurchases.

So in summary, I'm very pleased by our outstanding financial results for the quarter and the full year. We have great product momentum in the market with strong business and consumer demand for our most recent wave of products. With the exciting pipeline of consumer products arriving to market this holiday season, we are well positioned to continue this momentum this coming year.

On that note, I'm looking forward to seeing all of you at our Financial Analyst Meeting next week and I'll now return the call to Bill so that we can begin taking your questions.

William A. Koefoed
Former General Manager, Investor Relations
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?

Question and Answer

Operator

[Operator Instructions] First is Walter Pritchard with Citi.

Walter H Pritchard
Citigroup Inc, Research Division

I was wondering if you could elucidate a little bit on the PC side, your assumptions for fiscal '11 and just talk about tablets and how you're thinking about that market. Are you talking about growing in line with traditional PCs? And what impact are you thinking tablets will have on the market? And what may be your share in that area? And how does that affect your growth rate?

Peter S. Klein
Former Chief Financial Officer

Yes, we're very excited about the markets as the PC market is the PC market, excluding tablets. But obviously, we're super happy with both the sort of state of the PC market and the customer traction for Windows 7. We think tablets are very interesting and remind us that there are always new scenarios and new opportunities, and we're constantly working with our partners and our OEM partners. In fact, I think one of the things that's driven the PC market and Windows growth this year has been the work we've done with our OEM partners on multiple scenarios and form factors and price points in all those. Tablets, I think, are interesting and great because I think they sort of enlarge the overall opportunity; I think they're additive to the opportunity, and again, it reminds us that there are lots of interesting new scenarios that we are continuing to work on. And so we're excited by that.

Operator

Next is Adam Holt with Morgan Stanley.

Adam Hathaway Holt
Morgan Stanley, Research Division

Do you think business revenue growth can get to same levels you saw with the previous Office cycle, where it reached north of 20%? And why wouldn't the Annuity business for Office grow faster than low-single digits in the heart of the cycle next year?

Peter S. Klein
Former Chief Financial Officer

I'm not going to give guidance on business revenues other than the driver framework that we gave. In terms of the Annuity business, obviously, this is in terms of the deferred revenue that we've had the last year or year and a half, has been slow. And so we're kind of digging out of that hole of the recognitions that we have from the deferred revenue balance. And so in the course of this year, we'll be building that back up. And as I said, we expect Q1 unearned revenue to also return to normal historical sequential patterns. So we feel good about sort of the opportunity to continue to drive bookings with Office, but in terms of the Annuity revenue recognized growth, that's impacted by sort of the billings that we saw over the course of the last year. But having said that, we're certainly very optimistic about business uptake of Office 2010.

Operator

Next is Heather Bellini with ISI.

Heather Bellini
UBS

I was wondering if you guys could talk about the decline in the consumer premium mix. And what percentage of the decline is related to emerging markets? And what are the other reasons if that doesn't explain all of it?

Peter S. Klein
Former Chief Financial Officer

All of it. It's all related to the growth in emerging markets.

Operator

Next is Philip Winslow with Credit Suisse.

Philip Alan Winslow
Crédit Suisse AG, Research Division

I just wanted to have one question back on the Windows division. If you look at that commercial and retail license line, it still remains very strong year-over-year and even sequentially. Obviously, in the first part of the fiscal year, that was driven by consumers upgrading to Windows 7. Just what are you seeing there? And then also, as we start to think about fiscal '11, obviously, that does include commercial licenses too. What would you expect for the impact of potentially enterprises upgrading to Windows 7 and sort of on top of I guess the PC replacement cycle?

Peter S. Klein
Former Chief Financial Officer

It's great. We're very optimistic about that opportunity, but remember it's a small part of the business. About 20% of the business. So while there's great intent to deploy, and we're already seeing great deployment, so that is a little bit of a tailwind, but it's not by any stretch of the imagination a material mover of the business. But it is a nice additive.

Operator

Next is Sarah Friar from Goldman Sachs.

Sarah Friar
Goldman Sachs Group Inc., Research Division

First on the overall environment, you sound incredibly upbeat. You've clearly had a very strong quarter. Was there any shift as you got towards the end of the quarter because clearly others through earnings have started to note more weakness in Europe, for example, or government spendings. So I'd just love to get your perspective.

Peter S. Klein
Former Chief Financial Officer

We didn't really see any differences throughout the quarter, and we are encouraged. We had strong demand, strong sales execution. And obviously, did slightly better than we had hoped and talked about last quarter for our product sets. So we're thrilled with customers adopting our products. And there was really no difference throughout the quarter.

Sarah Friar
Goldman Sachs Group Inc., Research Division

So it sounds like with the product cycle, it's your kind of expectation that you can kick through even some slight decline of the macro side.

Peter S. Klein
Former Chief Financial Officer

Yes, we certainly feel really good about the traction of our product set, no doubt.

Operator

Next is Brent Thill with UBS.

Brent John Thill
UBS Investment Bank, Research Division

Peter, you're continuing your strong expense discipline in the quarter, and just curious if you could talk about fiscal '11 and what really changes as we go into next year to continue that discipline. You did take your expense guidance down a little relative to your past guidance. If you could just explain what drove that.

Peter S. Klein
Former Chief Financial Officer

Yeah, it's the same thing. This is an ongoing process, something we think about every day. And so continually as we go through, we're always scrubbing, we're always looking at our plans, we're always looking to make the most effective use of the money. And as we've done that and we made progress, then we can lower our guidance, and that's just what we did. We did better in Q4 than we expected, and we're continuing to take that into next year. And we'll just focus on it continuously.

Operator

Next is Katherine Egbert with Jefferies.

Katherine R. Egbert
Jefferies LLC, Research Division

Your contracted but not billed balance was up $1.5 billion this quarter. Can you tell us about that?

Peter S. Klein
Former Chief Financial Officer

Yes, I mean, as we said, it was a strong booking quarter all up, if you look at the revenue and the unearned and the CMB. Our bookings growth was 27%. And so it's reflective of the sales execution and the Enterprise demand for our products. And it's interesting, Bill's kind of touched on this. It's very broad-based across geographies and across products and across customer segments and size. And so that's what's really driving that.

Katherine R. Egbert
Jefferies LLC, Research Division

Will that continue to increase?

Peter S. Klein
Former Chief Financial Officer

We haven't given guidance on that. We did give expectations on the unearned. So I would take that as sort of a proxy for how things are going.

Operator

Next is Kash Rangan with Merrill Lynch.

Kasthuri Gopalan Rangan
BofA Merrill Lynch, Research Division

Looking at the unearned balance for Server & Tools and MBD, it looks like it's back up to multi-quarter highs. And also your unearned metric which you reported is well above what it has been, the highest it's been in eight quarters. Yet at the same time, the guidance for the annuity in growth rate, it still sounds like we're in the recession, listening to your guidance on what seems to be low- to mid-single digits. Can you help us understand the disconnect here? It seems to me that you're being a little bit conservative with your annuity guidance for what seems to be two big product lines given the improvement in bookings off balance sheet, on balance sheet. So it occurs to me that as the deferred revenues start to build up, in your words, and there's normal seasonality that you should take your guidance up in the next few quarters. So comments or reactions, explanation would be appreciated.

Peter S. Klein
Former Chief Financial Officer

Yes, what you're seeing, Kash, is the recognitions next year are a function of the deferreds that we've had, and as you mentioned, this is the first quarter where we've really bumped it up. So the recognitions in the Annuity revenue that you're seeing next year in the reported number is a function of sort of the challenges we've had on our deferred balance. And so as we build up over time, you'll start to see the Annuity business do better. So that's what you'll see as you get towards the latter part of next year because this is the first quarter where we really saw that unearned balance take off.

Kasthuri Gopalan Rangan
BofA Merrill Lynch, Research Division

So if the deferreds continue to build up normal seasonality, well then we should expect you to take your guidance up for the Annuity growth rate in your two main businesses, right?

Peter S. Klein
Former Chief Financial Officer

It's too early to tell. You should just take the guidance that we gave as our guidance for FY '11.

Operator

Next is Brad Reback with Oppenheimer.

Brad Robert Reback
Oppenheimer & Co. Inc., Research Division

Peter, in the slides on 18, it talks about COGS being sort of negatively impacted next year. Based on the expectation of mid-teen growth in E&D, can you give us any sense of what the headwind is on the COGS side?

Peter S. Klein
Former Chief Financial Officer

Well, what I tried to do is give you the drivers, and I think you should go through your model, think about what assumptions you're going to make, and clearly, the assumptions -- the biggest one that we like to call out that we think is most material by far is the growth in E&D and the headwind from the hardware sales, which is obviously a great thing for the long term but in the short term, will provide a headwind to COGS. And so the reason we like to give you the drivers, it allows you the flexibility to kind of work that through your model as you come up with your product mix.

Brad Robert Reback
Oppenheimer & Co. Inc., Research Division

I understand. Not to pick here, but you did put the mid-teen guidance out there. So based on that, there's no way to give us any sense of what type of headwind that generates so we're all on the same page here.

Peter S. Klein
Former Chief Financial Officer

I'd just say, Brad, do the math. And I think it'll come out whatever your assumptions are for the driver framework.

Operator

Next is Sandeep Aggarwal with Caris & Company.

Sandeep Aggarwal
Caris & Company, Inc., Research Division

Peter, we are in the middle of our Enterprise refresh and premium mix for business addition has gone up from 28% to 29%. But if I look at the historical trend, during a middle Enterprise refresh, actually you have been in mid to late 30s in terms of business premium mix. Why it has only seen only 100 basis points improvement? Or is there a time maybe in the next few quarters where we can see it reaching to the historical level?

Peter S. Klein
Former Chief Financial Officer

Yes, I would say, one, it is early in the refresh cycle, so we should watch it. I think that really is the answer.

Operator

And next is Ed Maguire from CLSA.

Edward Everett Maguire
CLSA Americas, LLC, Research Division

Last quarter you provided some metrics around your Online Services subscriptions. Could you provide some at least directional indications and help us understand as well some of the traction around Azure and how that may be impacting some of the traditional Server revenues?

Peter S. Klein
Former Chief Financial Officer

Yes. As we talked about -- so on the sort of commercial, you figure the productivity Online Services, as Bill talked about, 70% of those wins have been competitive wins, which has just been really good. So we're really accelerating the traction there. On the Azure side, it's early. We just launched that this year. The productivity Online Services are farther along from a customer perspective, but we've really accelerated the developers and the users we have on the Azure platform. It's not material to the financials now, but we're really sort of establishing a leadership position in that of users. And we've had some, on the productivity side, we've had some great wins. We had the state of Kentucky, which has many, many, 700,000 users. So acceleration and continued progress in leadership in that.

Operator

And next is Gregg Moskowitz with Cowen.

Gregg Steven Moskowitz
Cowen and Company, LLC, Research Division

Just a follow-up on Office 2010. Qualitatively, Peter, how are you thinking about consumer and Enterprise adoption rates in the first 12 months or so post-release as compared with a similar period with regard to Office 2007?

Peter S. Klein
Former Chief Financial Officer

Yes, you should just take the guidance that we gave you on the non-annuity side, we sort of expected to track to the PC shipments, which is a pretty strong result especially given the mix of PCs to emerging markets, where we have slightly lower attach. So this quarter will be a big quarter. We'll look at the back-to-school and see how we're doing. But other than that, we're very excited, off to a great start, as you saw. The 51% number is a very strong number for early on.

Operator

And the last question comes from Rob Breza with RBC Capital Markets.

Robert Paul Breza
RBC Capital Markets, LLC, Research Division

If you look at the PC shipments, your expectations for Q1 are helpful. As we look at the trend kind of in the second half of the year, would it be natural to assume after back-to-school holiday season that we see a slight tail off? Can you just give us kind of maybe a front half, kind of second half thought?

Peter S. Klein
Former Chief Financial Officer

We're not giving color on sort of half by half. The one thing I would say that will continue all year is that emerging markets will continue to grow faster than developed markets, and that has an impact on our business. Okay, so that will wrap up the Q&A portion of today's earnings call. We look forward to seeing many of you at the Financial Analyst Meeting next week, where we will provide more details about our long-term strategies and provide you with a hands-on opportunity to experience our technology and engage in great discussions with our management team. For those of you who are unable to attend in person, you will be able to follow the day from our Investor Relations website at microsoft.com/msft. Please contact us if you need additional details. We sincerely hope to see you there. Thanks again for joining us today, and have a great day.

Operator
And that concludes today's conference. Please disconnect your lines at this time.