Presentation

Operator

Welcome to the Microsoft's First Quarter Fiscal Year 2011 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 here today are Peter Klein, Chief Financial Officer; Frank Brod, Chief Accounting Officer; and John Seethoff, Deputy General Counsel.

Today we filed our Form 10-Q. In addition, we posted our earnings release and financial summary slide deck on our new Investor Relations website at microsoft.com/investor. The slide deck is intended to follow the flow of our prepared remarks and provide a reconciliation of differences between GAAP and non-GAAP financial measures, as well as a summary of segment reporting changes to historical results. As was the case last quarter, we will post today's prepared remarks to our website immediately following the call until the complete 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 at the Microsoft Investor Relations website until October 28, 2011.

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Today, 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 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 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 statement.

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

Peter S. Klein
Former Chief Financial Officer

Thanks, Bill. Good afternoon, everyone. I'm pleased to be able to share with you our excellent results for the first quarter, which reflect the ongoing strength and breadth of our product portfolio.

Demand from both businesses and consumers drove healthy revenue growth. We delivered record first quarter revenue, operating income and earnings per share.

We continued to control costs while prioritizing our investments into the highest growth opportunities, resulting in another quarter of margin expansion. As we discussed at our Analyst Meeting in July, we have eight core focus areas that we feel have the greatest opportunity to drive shareholder value.

This quarter, we had exceptional momentum across these focus areas and I want to start today's call by giving you some important highlights.

First, Microsoft Business Desktop is thriving with enterprises and small- and medium-size businesses investing in our products and services. Not only are companies adopting Windows 7 and Office 2010 at historically high rates, they are also investing in our Office productivity platform, including SharePoint, Exchange, Dynamics CRM and Lync, the newly rebranded Office Communication server, all of which grew double digits this quarter.

Server and Database businesses had strong momentum as our data center and cloud offerings remain a top priority for our customers as they continue to adopt the Microsoft platform.

In addition, Windows Azure had strong subscription growth and we announced a number of platform enhancement this morning at our Professional Developers Conference.

As I mentioned at the beginning of the call, consumer demand for our products continued to drive terrific results this quarter. In terms of our core focus areas, Xbox momentum continued with our console outselling every competing console in the U.S. for the fourth consecutive month. Bing used [ph] at an all-time high with almost double the number of queries since it launched last year. And consumers continue to show their strong preference for Windows 7 and Office 2010. Customer satisfaction across our products remains at record-high levels.

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

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

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

William A. Koefoed
Former General Manager, Investor Relations

Thanks, Peter. I'll start today by noting that all of my comments are adjusted for the $1.5 billion of revenue, which was deferred in the first quarter of last year. As you probably recall, this deferral was related to the Windows 7 Upgrade Program and Windows 7 licenses sold in advance of general availability in the first quarter of last year.

We've reconciled this non-GAAP view to GAAP results in our earnings slide deck. All growth comparisons I make on the call today will relate to the corresponding period of last year unless I specify otherwise. Okay, now to our results.

We started the fiscal year with great financial performance. Total revenue for the company was up 13% to $16.2 billion. Operating income and EPS grew 20% and 19%, respectively, again, outpacing revenue growth.

Bookings for the company were up an outstanding 24% this quarter. Bookings growth over the last three quarters was the highest in the last three years. Operating cash flow passed $8 billion for the first time ever and was up 34%.

A number of the demand patterns and trends we saw in the second half of our fiscal year 2010 were sustained through the first quarter of 2011. In the first quarter, consumer demand for Office 2010 and Xbox were outstanding. And we're pleased with the continued adoption and growth of Windows 7 and Bing.

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

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

Unearned revenue at the end of the quarter was $13.9 billion due to the strength in Enterprise Agreements. The contracted net build balance ended the quarter over $16 billion, significantly above prerecession levels. Geographically, emerging markets continued to significantly outperform the rest of the world. Growth in the U.S. and Europe remained stable and healthy.

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

Turning to the PC market. We estimate PCs grew between 9% and 11% in the first quarter. Consumer PCs grew single digits, while the business PCs grew mid-teens as the business hardware refresh remained strong.

From a geographic perspective, we estimate emerging market PCs grew over 3x the rate of mature markets. Regarding netbook trends, we have seen consumers shift from buying netbooks to low-end notebooks, and we have not seen a material shift away from low-end PCs due to tablets in the market. Instead, we've predominantly seen consumers increase their number of devices and their usage scenarios.

Going forward, we see a strong pipeline of innovation from our partners for new Windows form factors. With that PC backdrop, I'll move on to the results for the Windows and Windows Live division, which grew 10%.

Windows 7 drove the fourth consecutive quarter of double-digit revenue growth for the division. In the first quarter, Windows OEM revenue, which represents approximately 75% of the Windows and Windows Live division, was up 11%. In our earnings slide deck, we provide the usual bridge from revenue -- usual revenue bridge to market, but in summary, the overall dynamics of the market were as expected with strength in business PCs and emerging markets.

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

At the Financial Analysts Meeting in July, we discussed the assets and momentum of our Server & Tools portfolio. Let me provide some additional context to the underlying momentum and adoption this quarter.

As Peter mentioned, our data center and cloud offerings are a top priority for businesses. We estimate Windows Server usage share grew 1.5 points, while at the same time Windows Server Premium mix grew four points. System center revenue growth grew over 20%. And within that, revenue from server virtualization suites grew over 50%. Our virtualization share continues to grow as IDC reports Hyper V share of newly virtualized hosts double over the past year to 16.5%. Windows Azure is gaining traction and has grown subscriptions 40% sequentially.

This morning at PDC, we announced a number of platform enhancements, as Peter mentioned. These enhancements will help customers build new application and migrate existing applications to the cloud and allow developers and ISPs to build unique applications with the richest data set possible.

Next, I'll move to the Online Services division, which grew 8%. The online advertising component of the division grew 13%, primarily driven by our Search business, which again outperformed the market leader.

Yesterday, Bing reached a significant milestone with the Yahoo! partnership. Through diligent efforts on behalf of both companies, Bing is now powering Yahoo!'s algorithmic and paid search results in the U.S. and Canada.

Turning to the Microsoft Business division, where revenue grew 14%. In the fourth quarter, I commented that the market’s reception to Office 2010 has been phenomenal and the first quarter was no different. Consumer revenue grew 26% from continued launch momentum.

Office 2010's unit sales are 20% ahead of Office 2007 over the same time period. In addition, our three Office Web Apps now have more than 20 million users since our June launch. This business portion of MBD [Microsoft Business division] grew 11% with the non-annuity sales of Office 2010 up almost 50%.

We've seen strong demand from small and medium customers and PC attach rebounded from the year-ago levels. The multiyear licensing portion of the business grew about 5%. We've spoken with you about the Office productivity platform strategy, which includes Office, SharePoint, Exchange, Dynamics CRM and Lync, and we've seen strong momentum and renewal rate with our 2010 offering.

Let me give you some of the underlying product momentum in MBD. Lync grew 25% and the new version is expected to be available in our second fiscal quarter. Dynamics CRM, which just released a new beta this quarter, grew healthy double digits. Sales of Exchange and SharePoint, which are each $1 billion-plus businesses, also grew healthy double digits. Enterprises are adopting the entire business productivity infrastructure. They now have unparalleled choice when deploying their applications in their own data center or in the cloud.

During the quarter, we announced a number of significant cloud wins, including the city of New York last week. The number of business customers licensing our cloud services has more than tripled in the last year.

In education, we now have over 10,000 schools and 11 million students signed up for our Live@edu service. On October 19, we announced the next generation of our cloud productivity service, Office 365. Office 365 brings together Lync, SharePoint, Exchange and Office Professional plus Desktop software in an always up-to-date cloud service and is designed to meet the needs of organizations of all types and sizes.

From a business model perspective, Office 365 creates new profit growth opportunities for us and our partners and enables new scenarios that weren't viable in the past. With Office 365, we can reach more people, we will sell more to each customer and we will increase customer satisfaction. Office 365 will be available worldwide in calendar 2011.

Okay. Let's move on to the Entertainment and Devices division, which grew 27%, reflecting higher Xbox 360 platform revenue. We sold 2.8 million consoles this quarter, a unit increase of 38%. In the U.S., the new Xbox 360 console has outsold all other platforms since its introduction, resulting in a record first quarter shipment.

Halo Reach also had a solid launch this quarter, reaching approximately $350 million in revenue. The Halo effect extended to Xbox Live with continued strong membership growth this quarter.

Windows Phone 7 launched last week in Europe and Asia and we eagerly anticipate the introduction in the U.S. on November 8.

Now let me cover the remainder of the income statement. Cost of goods sold increased 10% to $3.1 billion, driven primarily by increased Xbox hardware volume and online costs. Operating expenses were $5.9 billion in the quarter, an increase of 6%.

In the first quarter, we repurchased $4 billion of shares, returned $1.4 billion through dividends and increased our dividend rate 23%.

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

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

Peter S. Klein
Former Chief Financial Officer

Great. Thanks, Bill. For the remainder of the call, I'll discuss our expectations for the second quarter and the remainder of fiscal 2011. According to many recent surveys, Enterprise IT spend should continue to grow for the remainder of the fiscal year. With the depth and breadth of our offerings, we are well positioned to grow our share of the IT spending market.

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

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

With that back up, I'll now turn to segment expectations. Windows division revenue should go roughly in line with the PC market for the second quarter and the full year, when excluding the impact of the prior-year Tech Guarantee and revenue attributed to the launch spike.

For the second quarter of fiscal year 2010, you should exclude $1.7 billion of revenue related to the Tech Guarantee and $600 million of revenue related to the launch spike. For the full year, you should exclude $300 million and $700 million, respectively, related to these events.

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

Turning to expectations for the Microsoft Business division. Consumer and business non-annuity revenue, approximately 40% of the division's total revenue, should continue to track the PC shipment growth rates for the second quarter and the fiscal year.

We also expect revenue associated with multiyear agreements representing 60% of total revenue, to grow mid- to high-single digits for the second quarter and the fiscal year, as we slowly start to recognize the higher growth billings going on to the balance sheet.

When updating your models, you should remember that next quarter, in addition to the framework I just provided, we will also recognize approximately $220 million of deferred revenue related to Tech Guarantee.

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

And finally, in the Entertainment and Devices division, we are very excited about the launch of Windows Phone 7, and we anticipate that Kinect will be the guest this holiday season. Considering the momentum and high level of consumer interest in our offerings, we expect this division's revenue to go roughly 30% for the second quarter and in the mid-20s for the full fiscal year.

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

Turning to operating expenses. We continue to prioritize our investment and remain diligent on cost controls. We are reconfirming our guidance of $26.9 billion to $27.3 billion for the full fiscal year. We expect the low interest rate environment we experienced in the first quarter to continue through the second quarter and the fiscal year and for investment income to be fairly consistent with the first quarter level.

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

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

So with that color for Q2 and the rest of our fiscal year, I want to close by saying that we are extremely pleased with the results we delivered this quarter. We executed well in all of our core focus areas. Products and services we brought to market over the past year are being embraced by our customers.

And as a result, our product portfolio is as strong as it has ever been. This, combined with our continued prioritization of investments into the highest growth opportunities, will help us drive long-term revenue and earnings per share growth.

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

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

Question and Answer

Operator

[Operator Instructions] The first question comes from Adam Holt with Morgan Stanley.

Adam Hathaway Holt
Morgan Stanley, Research Division

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

Peter S. Klein
Former Chief Financial Officer

Yes, at a high level, certainly, I'd point you to the guidance framework that we just talked about on what we expect relative to the business PC market. And obviously, the business hardware refresh is a great underlying driver for that business, as well as excitement around the product. And in terms of Office, I think the thing that's most encouraging for me is the breadth of the strength around it, across all customer segments, whether that was small- and medium-size businesses and enterprises. In terms of the integration story, Bill touched on the strong growth across all of those businesses and I think you're really starting to see that resonate very well with customers. And in fact, as we had anticipated when we were talking about anticipating Office 2010, and that was going to be a key part of the story and I think we're starting to see that play out early days, which I think can sustain for a while.

Operator

And next is Heather Bellini with ISI Group.

Heather Anne Bellini
ISI Group Inc., Research Division

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

Peter S. Klein
Former Chief Financial Officer

Yes, I would say two things. One, just in terms of Enterprise's desire to upgrade, very strong, sort of high level. I think what we're seeing is people actually doing their deployments a little bit faster than I think we expected than we'd seen in the past. In terms of the overall business, obviously we're seeing enterprises and businesses refresh their hardware, which is obviously a great thing in terms of the Windows 7 business.

Operator

The next is Walter Pritchard with Citi.

Walter H Pritchard
Citigroup Inc, Research Division

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

Peter S. Klein
Former Chief Financial Officer

I think you're seeing the confluence of several things. Obviously, one is just macroeconomics and businesses investing in IT again. And I think the other is that our product portfolio, and sort of the combination of those two things has gotten enterprises really wanting to invest both in their IT infrastructure and in our portfolio of products. And so as we had hoped, in the course of the last year, we thought those two things might come together. The last thing I'll say is the accelerated interest in the cloud. And so when you add on top of it where we've come in terms of our cloud offerings and what that means for enterprises as they think about investing for the long term, they want to invest with somebody who can make the transition from their on-premise infrastructure to the cloud as smooth as possible. And I think you're seeing that as well. So the conversations that we're having always included our new product portfolio, as well as our cloud offerings. And I think that taking into account the better macroeconomic environment has all come together to really drive a better environment.

Operator

And next is Sarah Friar with Goldman Sachs.

Sarah Friar
Goldman Sachs Group Inc., Research Division

Peter, on the cost side, you have tremendous operating margins this quarter. As you look forward, you maintained the cost goal for the full year. Is that an anticipation of what's coming around the Windows Phone launch and Kinect? Or are there ways to continue to see you be a lot more efficient on the cost side over the next couple of quarters?

Peter S. Klein
Former Chief Financial Officer

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

Operator

And next is from Brent Thill with UBS.

Brent John Thill
UBS Investment Bank, Research Division

Peter, if you could drill one level deeper into the covert [ph] demand and maybe give us a sense of what inning you think we're in, in terms of the corporate upgrade.

Peter S. Klein
Former Chief Financial Officer

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

Operator

And next is Phil Winslow with Crédit Suisse.

Philip Alan Winslow
Crédit Suisse AG, Research Division

Just wanted to focus in on the Server & Tools division for a minute. Peter, what are your OEM partner's telling you about just where we stand in the server refresh cycle? And how much do they see these sort of being high growth as what we're seeing in server shipments either continuing or not continuing into next year?

Peter S. Klein
Former Chief Financial Officer

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

Operator

And next is Katherine Egbert with Jefferies.

Katherine R. Egbert
Jefferies LLC, Research Division

If I do some math, I come up with about 40% of your revenue coming from all consumer sources and about 60% business. It looks like the consumer revenue's about flat year-on-year and the business revenues growing high teens. Is that accurate?

Peter S. Klein
Former Chief Financial Officer

Well, yes. It's hard to answer that question because I don't know exactly your math. I will point out a couple of key highlights on the consumer side. If you look at Entertainment and Devices, the Xbox growth of 27%, that's something that we feel really good about and gives us great momentum heading into the holiday with Kinect, and the same thing with our Search revenue outgrowing the market. So those are the sort of the key highlights.

William A. Koefoed
Former General Manager, Investor Relations

And Consumer and Office was up 26%

Peter S. Klein
Former Chief Financial Officer

Correct. So we actually feel really good about the consumer revs. It's hard to answer that specific question without...

William A. Koefoed
Former General Manager, Investor Relations

We feel good about the business growth so it was a good quarter for both.

Operator

And next is Kash Rangan with Merrill Lynch.

Kasthuri Gopalan Rangan
BofA Merrill Lynch, Research Division

It's good to see the cash flow and the operating margins, also you bought back a ton of stock in the quarter. My question is about growth. Just want to answer this from a quantitative standpoint. Incrementally relative to the last two quarters, what's your confidence level in your growth there? I just noticed some of the forward-looking indicators. Your business tends to lag with all the spending because you have this annuity model for the most part. Look at the unbilled portion, and that's at a record high. You're e-renewals are, you characterize, better than before. The first half has given nicely. What's your incremental confidence with respect to your revenue growth rate considering expenses tied up? I would assume that there's a lot of operating leverage for that incremental revenue upside. Talk to us about your confidence in your revenue growth outlook.

Peter S. Klein
Former Chief Financial Officer

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

Operator

And next is John DiFucci with JPMorgan Chase.

John Stephen DiFucci
JP Morgan Chase & Co, Research Division

Peter, my question has to do with PC market, PC sales, unit sales. You and your Windows OEM revenue bridge, which is always very helpful. You start off from PC market of 10% growth. But industry analysts are coming out and I know, you're not doing their work, but it's actually quite different from what we've seen out there from industry analysts by about 2½% in this quarter, which is a bigger range than we usually see. Just wondering, can you just help us out a little bit with that because those things come out throughout the quarter and we take a look at those, and we realize that a lot of your, at least the Windows business and also MBD and with the Office is driven by that, fairly significantly driven by that. Any comments on that, the difference?

William A. Koefoed
Former General Manager, Investor Relations

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

Operator

And the next question comes from Jason Maynard with Wells Fargo.

Jason Maynard
Wells Fargo Securities, LLC, Research Division

I just have a question on Windows 7. The premium mix-up was pretty good this quarter. I'm just curious, in light of your commentary about the Enterprise adoption cycle, is it fair to say you anticipate sort of similar levels playing out there in terms of how that percentage mix plays out for the rest of the year?

William A. Koefoed
Former General Manager, Investor Relations

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

Operator

And next is Brad Reback with Oppenheimer.

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

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

Peter S. Klein
Former Chief Financial Officer

Bill touched a little bit on the business model. We talked about this a little bit at our Analyst Meeting. These cloud wins and these cloud deals provides totally new economic opportunity for us. These are scenarios that we're not in today. In many cases, their customers have as customers today. In some cases, it's revenue that we may have for them to think us [ph] that we're not getting. Sitting in New York is a perfect example. We have others like Starbucks and others, where we're addressing totally new scenarios, Azure is a great example of that. It increases our penetration in that market. Similarly, we've talked about how in the mid-market we can really increase our penetration services like this. So that's sort of our business model how it creates economic profit for us.

Operator

And next is Edward Maguire with CLSA.

Edward Everett Maguire
CLSA Americas, LLC, Research Division

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

Peter S. Klein
Former Chief Financial Officer

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

Operator

And our last question comes from Gregg Moskowitz with Cowen and Company.

Gregg Steven Moskowitz
Cowen and Company, LLC, Research Division

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

Peter S. Klein
Former Chief Financial Officer

Well, the first thing I'd say is the premium mix is over 20%. We haven't given an exact number on that. I think it's best to continue to track it and not sort of set a ceiling or an expectation for it.

William A. Koefoed
Former General Manager, Investor Relations

Okay, so that will wrap up our Q&A portion of today's earnings call.

As many of you know, today is a busy day for us here in Redmond, as we have PDC going on here. I'd encourage you, if you haven't, to look into the replays of the keynotes that we've done at PDC.

We also look forward to seeing many of you at a number of call conferences we'll be participating in this quarter. For those who of you are unable to attend in person, you will be able to follow our comments at microsoft.com/investor. Please contact us if you need any additional details. Thanks, again for joining us today and take care.

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