

Competition

Competitors to the Microsoft Office system include many software application vendors such as Apple, Corel, Google, IBM, Novell, Oracle, Red Hat, Sun Microsystems, and local application developers in Europe and Asia. IBM (Smartsuite) and Corel (WordPerfect Suite) have measurable installed bases with their office productivity products. Apple may distribute certain of their application software products with various models of their PCs. The OpenOffice.org project provides a freely downloadable cross-platform application that also has been adapted by various commercial software vendors to sell under their brands, including IBM, Novell, Red Hat, and Sun. Corel's suite and many local software suites around the world are aggressively priced for OEMs to preinstall on low-priced PCs. In addition to traditional client-side applications, Web-based offerings such as AjaxWrite, gOffice, iNetOffice, SimDesk, ThinkFree, wikiCalc, or other small projects competing with individual applications, can also provide an alternative to Microsoft Office system products. Google has announced spreadsheet and word processing applications as web-based offerings and also provides an enterprise search offering that competes with SharePoint and our new enterprise search product. IBM has many different points of competition with Office system products with its Notes and Workplace offerings.

As we continue to respond to market demand for additional functionality and products, we will compete with additional vendors, most notably in enterprise content management, collaboration tools, unified messaging, and business intelligence. These competitors include WebEx, and a number of business intelligence vendors such as Business Objects, Cognos, and Hyperion.

Microsoft Business Solutions

Microsoft Business Solutions is responsible for Microsoft Dynamics brand business applications for small and mid-size businesses, large organizations and divisions of global enterprises. It offers financial management, customer relationship management, supply chain management, and analytics applications. Revenue is derived from software and services sales, with software sales representing a large majority of total revenue. Software revenues include both new software licenses and enhancement plans, which provide customers with future software upgrades and on-line training over the period of the plan. The solutions are delivered through a worldwide network of channel partners and independent software vendors that provide services, additional related software, and local support.

Products: Microsoft Dynamics AX; Microsoft Dynamics CRM; Microsoft Dynamics GP; Microsoft Dynamics NAV; Microsoft Dynamics SL; Microsoft Dynamics Retail Management System; Microsoft Partner Program; and Microsoft Office Small Business Accounting.

Competition

Our competition varies based upon the size and geographic location of the customer for whom we are competing. We compete with well-known vendors such as Intuit and Sage in the market focused on providing solutions for small and mid-sized businesses. The market for large organizations and divisions of global enterprises continues to be intensely competitive with a small number of primary vendors including Oracle and SAP. Additionally, these large enterprise-focused vendors are repositioning some of their business applications to focus on small and mid-sized businesses. We believe our products compete effectively with these vendors based on our strategy of providing integrated, adaptable solutions that work like and with Microsoft technologies our customers already have.

MSN

MSN provides personal communications services, such as e-mail and instant messaging, and online information offerings such as MSN Search, MapPoint, and the MSN portals and channels around the world. MSN also provides a variety of online paid offerings. MSN manages many of its own properties, including health, autos, and shopping. MSN also creates alliances with third parties for many channels, including CareerBuilder.com, Expedia.com, Foxsports.com, Match.com, and MSNBC.com.

MSN generates revenue primarily from advertisers on MSN, from consumers and partners through subscriptions and transactions, and from MSN narrowband Internet access subscribers. In fiscal year 2006, we launched MSN adCenter – our internally developed advertising platform – in certain international markets and throughout the U.S. where it now serves 100 percent of paid search traffic on our online properties. We believe MSN adCenter will enable us to increase both display and search advertising revenues by reducing our reliance on third parties for delivering