7. Microsoft Corporation

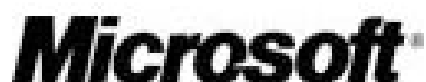**_Microsoft_**

7.1 Summary

Microsoft, one of the largest IT companies in the world, develops, manufactures, licenses, and supports some of the world's most widely used software products. Its products consist of operating systems, server applications, information worker productivity applications, business solution applications, high-performance computing applications, and software development tools.

For FY2008, which ended in June, Microsoft recorded revenues of $60.4 billion, an increase of 18.2% over FY2007. The company attributed the increase to several factors: licensing of Microsoft Office 2007, increased Xbox 360 platform sales, increased revenue associated with Windows Server and SQL Server, and increased licensing of Windows Vista. The U.S., which is the company' largest geographic market, accounted for 59.5% of total revenues. U.S. revenues were $35.9 billion in 2008, an increase of 14.6% over 2007.

NASDAQ	MSFT
Founded	1975
Headquarters	Redmond, WA
Total Revenue (2008)	$60.4 billion
Revenue Growth (YoY)	18.2%
Net Profit (2008)	$17.7 billion
Profit Growth (YoY)	27.7%
Employees (2008):	91,000

Microsoft generates revenues in five business divisions:

- Business division – 31.6% of the total revenues for FY2008
- Client division – 27.5%
- Server and Tools division – 22%
- Entertainment and Devices division – 13.6%
- Online Services division – 5.4%

2008 Annual Report

HealthVault

Taking a Leadership Role in Healthcare Technology

Fiscal 2008 saw strong growth across our businesses as we continue to focus on important new opportunities in a wide range of markets…. Healthcare is an important opportunity and in fiscal 2008 we introduced Microsoft HealthVault and the Microsoft Amalga Family of Health Enterprise Systems. HealthVault provides a platform for services and applications that will enable people to better manage their health information. Amalga is a portfolio of enterprise-class solutions that span clinical, operational, and financial functions within healthcare. Together, these products position Microsoft as a leader in the market for digital technology innovations that improve healthcare delivery.

– **William H. Gates III**
   Chairman of the Board

– **Steven A. Ballmer**
   Chief Executive Officer

Microsoft has built a formidable brand image since it opened for business in 1975. Starting in 1998, the company has appeared regularly in the Harris Interactive annual Best Brands poll. According to the BusinessWeek Interbrand ranking of best global brands in 2007, Microsoft was ranked second with a brand value of $58.7 billion. For the past seven years, the company brand has been ranked second, behind only Coca-Cola, in terms of brand value, according to Interbrand. Microsoft was ranked far ahead of some of its competitors, including IBM, Hewlett-Packard, and Google. Microsoft's MSN portal is one of the oldest brands online. Microsoft's brand image generates a number of intangible benefits, according to analysts. One of the most valuable is building preference for Microsoft over its competitors.

Microsoft maintains a strong focus on research and development. During 2008, 2007, and 2006, the company reported R&D expense of $8.2 billion, $7.1 billion, and $6.6 billion, respectively. These investments represented 14%, 14%, and 15%, respectively, of revenue in each of those years. Currently, about 38.5% of Microsoft's employees work in R&D, where activities are mainly focused on consumer technology.

Microsoft has reported consistently strong financial performance for several years. The company Revenues topped $60 billion for the first time in 2008, with YoY growth of 18.2%. During the period 2004-2008, Microsoft's revenue grew at a CAGR of 13%.

The company's strong balance sheet provides the freedom to pursue important strategic initiatives without having to borrow in the current volatile capital markets. Cash and cash equivalents increased from $6.1 billion in 2007 to $10.3 billion in 2008, a YoY increase of 69.2%. The company has reported zero long-term debt over the past five years. As Datamonitor observed, strong financial performance lends financial stability, which can be leveraged to seek new avenues for growth avenues in the future.

The new growth avenue that Microsoft pursued most aggressively in 2008 was online search. Despite continued investment in its own search engine, Microsoft's MSN has very low market share compared with Google and Yahoo. At the end of December 2007, Google sites captured 58.4% of the U.S. search market. Yahoo! sites were in second place (22.9%), followed by Microsoft sites (9.8%), Time Warner network (4.5%), and Ask network (4.6%). In February 2008, Microsoft made an unsolicited bid of $31 a share, or $47.5 billion, for all of Yahoo, which Yahoo rejected as too low. Microsoft raised its offer to $33 a share, but then in May took that bid off the table. The company has since said it is no longer interested in making a bid for all of Yahoo.

The previous fall, Microsoft had launched HealthVault, focusing its enormous resources on advancing the U.S. healthcare initiative to encourage the use of electronic medical records. Healthcare was the subject area, some analysts noted, but search was still the goal. Closely collaborating with partners, Microsoft has developed powerful health solutions, and is continually working to unify and increase accessibility to health information.

7.2 Microsoft HealthVault: Free and On the Web

When Microsoft launched HealthVault on Oct. 4, 2007, the headlines described it as a free Web-based service that would allow users to store their medical records online and eventually share them with doctors and healthcare professionals. At a press briefing in Washington, D.C., Peter Neupert, corporate vice president of Microsoft's Health Solutions Group, provided the context. "HealthVault is three things," he said. "It's a new, private search experience designed to help the user navigate the rich and complete information that exists out there on the Web to help them find the info and the services that are relevant to them. Next, it's a private and secure shared data repository and online service for the family manager to collect, store, gather and share their health information. Last, it's the HealthVault Connection Center," a client application that allows people to collect and share health information from "plug and play" personal home health devices. The goal, he said, is to empower the "family health manager," who in many families is the mother.

"Remember, it's about the mom, the family health manager, and creating an information system that works for them," Neupert said in his remarks to the press. "It starts with this shared data repository, the opportunity to collect data, because we need to make information reusable…. We decided that making HealthVault free to users, free to physicians, free to software developers, free to plans, was the best way to encourage adoption." Being free is also the best way for Microsoft to encourage the adoption of HealthVault for search.

At the product's launch, Microsoft announced more than 40 applications and devices available on the HealthVault platform now or in the future from a long list of organizations, including. Allscripts, American Diabetes Association, American Heart Association, American, CapMed (division of Bio-Imaging Technologies), Healthways, Home Diagnostics, LifeScan (a Johnson & Johnson company), Matria Healthcare, Medem, Medical Informatics Engineering, Medstar Health, New York-Presbyterian Hospital, NextGen Healthcare Information Systems, Physicians Wellness Network, Texas Instruments, Vital Data Technology, and Whole Health Management. Neupert said, "We're enabling new business models for our partners. They can provide free services. They can do subscription services. We're not trying to inhibit any of that."

Microsoft seems to have made a well-timed entry into the healthcare technology market. There are dozens of PHR products available to consumers already. The American Health Information Management Association lists 15 free Web-based PHR services, 47 Web-based services that charge a fee, and 28 software programs available for purchase. According to David Hsu, a management professor at the Wharton School, one promising aspect of Microsoft's HealthVault announcement is that the company was able to cite more than 40 partners, including Allscripts, which provides EMR systems, Healthways, which provides wellness and disease prevention services, and New York Presbyterian Hospital. Other partners include health device makers, which will import HealthVault information. However, he believes that the government will have to participate in some way to convince consumers that Web-based health information is as secure as on-line banking. "There will probably have to be some partnership between the private sector and the government," said Hsu. "I don't think Americans are prepared to turn over their health

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HealthVault Is About Health …and it's About Search

Search is where consumers are today. Over 8 million consumers a day do some form of health-related search. HealthVault search is better, it's more private, it's encrypted, we don't store the logs beyond 90 days. It's just a better experience. We've created a navigational aid to make it easier for users to [find] what it is they're really looking for, what's going to help them. We're innovating in the ad area….Ads are a very important part of the user experience and the content. Why? They don't want to just learn. They want to fix their problem, they want to buy a service, or they want to buy a product that makes their health condition better. [So] we will enable users to find HealthVault-compatible devices, HealthVault-compatible applications, services that will make it easier for them to navigate and learn.

– **Peter Neupert**, corporate VP Microsoft's Health Solutions Group

information to any one organization. If there were tools endorsed by a branch of the federal government and professional associations, that would help."
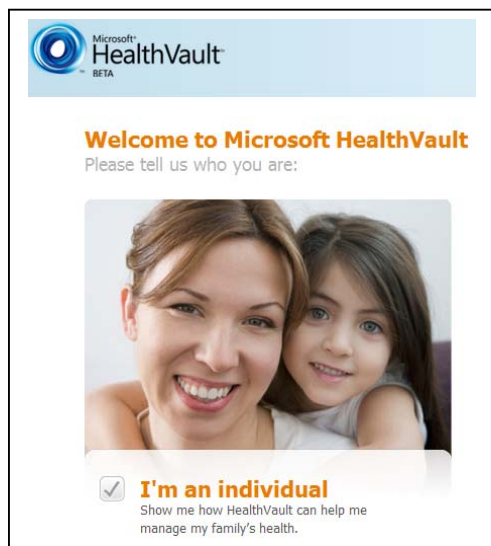
One issue for HealthVault and Google's entry, Google Health, is that they aren't covered by HIPAA (Health Insurance Portability and Accountability Act) regulations. HIPAA, passed in 1996, created standards for electronic health care transactions and addressed security and privacy issues. Under HIPAA, a patient's medical record and payment history can't be linked to an individual by an unauthorized person. These rules apply to health plans, billing services, health care networks, and institutions installing EMR systems. But they don't apply to companies offering Web services that allow medical records to be stored online.

Anita Allen, a law professor at the University of Pennsylvania and an expert on privacy law, says no matter what entity endorses personal online medical records, privacy issues will be huge. "Anyone's health records should be regarded as personal and sensitive," said Allen in an article on Knowledge@Wharton, the business school's publication site. "People need to be mindful of discrimination from employers and insurers."

In the FAQ at its Web site, Microsoft promises that HealthVault records are controlled only by the patient: the consumer decides what information is stored in HealthVault, access is granted on a case-by-case basis, and health records can't be used for commercial purposes unless authorized by the consumer.

Over a year ago, Arnold Rosoff, professor of legal studies and business ethics at Wharton, said, "Technology has moved on, but the health care industry hasn't. Microsoft and Google have the clout to lead to a tipping effect" to accelerate electronic medical record adoption. "For chronic diseases, you could see PHRs linked to medical providers, data updated once or twice a day and email reminders about medications," Rosoff said. "We're not far away from people having biosensors that transmit data into the record. It's not science fiction. It's definitely coming. That's why Microsoft and Google are interested."

7.3   Microsoft Amalga: Traditional Pricing Applies

Early in 2008, around the time of its Yahoo! bid, Microsoft announced the Amalga Family of Health Enterprise Systems, a portfolio of enterprise-class health information system solutions spanning clinical, operational and financial functions. The Amalga family of products was demonstrated publicly for the first time at the HIT industry's largest conference, Healthcare Information and Management Systems Society (HIMSS) held later that month in Orlando. The product family consists of three products:

- **Microsoft Amalga.** This is a new version of the product formerly known as Azyxxi and is part of a new software category called Unified Intelligence Systems designed for hospitals and health systems that have invested in a diverse set of IT solutions. Without replacing current systems, it offers an innovative way to capture, consolidate, store, access and quickly present data.

- **Microsoft Amalga Hospital Information System (HIS) –** This is a new version of the product previously called Hospital 2000. Amalga HIS is a fully integrated hospital information system designed for developing and emerging markets. It is built around an EMR with complete patient and bed management, laboratory, pharmacy, radiology information system and picture archiving and communication system (RIS/PACS), pathology, financial accounting, materials management, and human resource systems.

- **Microsoft Amalga RIS/PACS –** This is a new version of the product formerly known as GCS Amalga   It is available as a stand-alone system as well as an integrated component of Amalga HIS. The integrated architecture means that a radiologist can use a single application to manipulate and study images and access the patient medical record. The workstation interface includes support for predefined templates, an intuitive report editor, and voice recognition capabilities. Like Amalga HIS, this product is targeted at healthcare providers in countries outside the U.S.

At its February product announcement, Microsoft also announced several early adopters of Amalga, the unified intelligence system: MedStar Health, a community-based network of eight hospitals and other healthcare services in the Baltimore-Washington, D.C., area; New York-Presbyterian Hospital; Johns Hopkins Health System; Novant Health; H. Lee Moffitt Cancer Center; St. Joseph Health System, and the Wisconsin Health Information Exchange.

Northwestern Medical Faculty Foundation took a more cautious approach. Dale Sanders, CIO of the foundation, described his negotiations with Microsoft in his blog (callitanything. blogspot.com) on July 26, 2008: "Several readers have asked me to comment about the pricing structure and Total Cost of Ownership for Amalga. I am still in pricing negotiations with Microsoft and need to respect the confidentiality of those discussions…but will offer a few general thoughts…. I believe Microsoft is missing an opportunity to establish itself as a forward thinking leader in a new vertical…by offering a traditional, legacy licensing model for Amalga. I have been encouraging them to offer a utility, pay-as-you-consume model which, I believe, would ensure more, not fewer customers. The licensing model they are offering now is very typical of transaction systems, i.e., big up-front fees with smaller multi-year commitments. However, Amalga is more akin to a business intelligence tool…therefore, predicting the total adoption rate is very, very difficult." Sanders concluded his blog on a wry note: "Yesterday, Microsoft shared the names of several new and significant customers for Amalga…. Despite my reservations…other CIOs seem less concerned, and at the end of the day… paying customers definitely trump [my] Quixotic opinions. ;-) "

Hospitals Seek Ways to Aggregate Their Data

Feb. 10, 2009 – Healthcare IT News reported that the market for bringing healthcare data from disparate sources into one view is growing by leaps, according to a new study from KLAS, a healthcare research firm based in Orem, Utah. The study notes that software giant Microsoft is rapidly expanding its footprint in what KLAS calls an emerging aggregation market. Hospital information technology teams are turning to the aggregation of data to help frustrated clinicians, KLAS researchers say. The report profiles six leading vendors in the aggregation solution market – Carefx, dbMotion, Medicity, MEDSEEK, Microsoft, and PatientKeeper – which together account for 85 contracted deployments.

7.4   Microsoft Has Made a "Smart Bet"

While Microsoft has more resources than most of the other companies vying to digitize health records, it faces the same challenges. As *BusinessWeek* noted when HealthVault was launched, "Doctors with small practices haven't always been keen to make the investment in computer systems when the payoff seems so unclear. Few hospitals have bothered to set up systems to retrieve data from patients' electronic files." The U.S. economic package that President Obama recently signed into law should help, by earmarking funds that provide incentives to physicians who adopt EHRs. Still, paying for the computers that handle and store medical data, not to mention training office staff to use the systems, costs money. In the *BusinessWeek* article, Dr. Robert A. Jenders, an internist who also works in the medical information systems unit at Cedars-Sinai Medical Center in Los Angeles, said initiatives such as Microsoft's are encouraging. But he added, many physicians may view the amount of training needed to convert to EHRs as more trouble than it's worth.

Working to Microsoft's advantage is that most medical information is already in digital form. Terabytes of electronic health-care data are scattered throughout the U.S., on the servers of pharmacies, insurers, hospitals, and many doctors' offices. But the records typically are on disconnected systems, because the information isn't collected to help patients as much as it is gathered to make sure people are paid. The Holy Grail, all health experts agree, is the ability to collect and manage the data in one place.

Microsoft hopes to make HealthVault that one place by removing some of the financial hurdles. HealthVault is free: doctors and hospitals don't have to invest in new equipment to use it. Microsoft is also partnering with medical records software vendors, such as Allscripts: doctors using EMR software can easily send files over the Web to HealthVault. Doctors that don't use EMR software can securely fax data into their patient's HealthVault files.

In all of this, Microsoft is keeping one eye on Google, which is pushing forward with its own health-care-records initiative. In February 2008, Google began a pilot program with The Cleveland Clinic, where 120,000 patients had already signed up for an online service called eCleveland Clinic MyChart. Using MyChart, patients access their own information on a secure Web site and electronically renew prescriptions and make appointments. Adding Google's technology lets patients jump from their MyChart page to a Google account where they could easily transfer information between doctors. Based on the success of its pilot, Google launched its online PHR service to the public at google.com/health in May. Some hospitals are waiting to see a more regulated environment in place before they choose to partner with services like Google Health. Kenneth Mandl, who runs the PHR platform used at Children's Hospital in Boston, said, "We need to see the proper framework for regulation, certification, and privacy emerge that covers all platforms. At that point, I think that ultimately it should be a patient's choice about what platform they use."

Ultimately, everyone agrees, it's the patient who will decide. Like other PHR service providers, Microsoft has to take its case to the people and persuade them to opt in. Health experts say those with the most to gain may be patients with chronic ailments. Diabetics, for example, monitor their blood sugar daily with a glucometer, and many of the devices can connect to a PC so users can keep track of their readings. Microsoft has worked with one of the largest makers of glucometers, Johnson & Johnson's LifeScan unit, to enable consumers to connect to HealthVault. That way, patient information could be instantly added to a person's medical records and, in turn, be made immediately available to the diabetic's endocrinologist.

Will U.S. consumers trust Microsoft to safeguard their personal health data? No one knows yet, but Microsoft is willing to take that risk and, in the process, build its share of online search. As BusinessWeek noted, for Microsoft, HealthVault isn't so much a leap in technology as it is a smart business bet. "This isn't bleeding edge," says Glen E. Tullman, chief executive of Allscripts. "It's leading edge."

7.5   Key Executives

William H. Gates III, 52, Chairman of the Board

Gates has been the chairman of Microsoft since 1981. He co-founded Microsoft in 1975 and served as its CEO from the time the original partnership was incorporated in 1981. In June 2006, Mr. Gates stepped down as Chief Software Architect and announced a two-year transition plan out of a day-to-day role in the company.

Steven A. Ballmer, 52, Chief Executive Officer

Ballmer has been serving as the Chief Executive Officer of Microsoft since 2000. He was hired by Bill Gates in 1980 as Business Manager. During the past 20 years, Ballmer has headed several Microsoft divisions, including operations, operating systems development, and sales and support. He was promoted to President, responsible for running Microsoft in 1998. Prior to Microsoft, he worked for two years at Procter & Gamble as an Assistant Product Manager.

Kevin Turner, 43, Chief Operating Officer

Mr. Turner has been the Chief Operating Officer of Microsoft since 2005. Prior to joining Microsoft, he was the executive vice president, president and CEO of the Sam's Club division of Wal-Mart Stores from 2001 to 2002. He served as the executive vice president and CIO of Wal-Mart's information systems division between 2000 and 2001.

Craig Mundie, 59, Chief Research and Strategy Officer

Mundie is chief research and strategy officer since 2006. He previously served as Microsoft's chief technical officer for advanced strategies and policy. He joined Microsoft in 1992. Since August 2000, when President Clinton named Mundie to the National Security Telecommunications Advisory Committee, he has advised White House staff on issues affecting the security of the nation's telecommunications infrastructure. In 2002, he joined the task force on National Security in the Information Age to help develop a strategy for using technology to address new security challenges. Since 2002, he has been a Member of the Council on Foreign Relations, a nonpartisan organization dedicated to increasing America's understanding of the world and contributing ideas to U.S. foreign policy.

Peter Neupert, Corporate Vice President, Health Solutions Group

A Microsoft veteran (1987-1998), Neupert returned in 2005 to take this role, reporting directly to Craig Mundie. He is responsible for developing and driving the company's product and services strategy for health around the globe. Before rejoining Microsoft, Neupert served as president and chief executive officer of Drugstore.com from 1998 to 2001, and as chairman of the board of directors from 1999 to 2004. Neupert led Drugstore.com to become a top online retail store and information site for health, wellness, beauty and pharmacy products. He served on President Bush's Information Technology Advisory Committee (PITAC) from 2003 to 2005, and is recognized as an international leader in health information technology. On that committee, he co-chaired the Health Information Technology subcommittee and helped drive the report "Revolutionizing Health Care Through Information Technology," published June 2004 by PITAC. In his earlier tenure at Microsoft, Neupert forged the deal that created MSNBC in the mid-1990s and later launched the online magazine Slate.

Raymond V. Gilmartin, 67, Director (non-executive board)

Gilmartin has been a director of Microsoft since 2001. He joined the faculty at the Harvard Business School as professor of management practice in 2006. He also serves on the board of dean's advisors for the Harvard Business School. Gilmartin was **chairman, president, and CEO of Merck** from 1994 to 2005 and served as special advisor to its board till 2006. Prior to joining Merck, he served as chairman, president, and CEO of Becton Dickinson, a medical devices and diagnostic products producer. He joined that company in 1976 as the vice president of strategic planning.

7.6 Selected Financial Statements

Source: Microsoft 2008 Annual Report (year ending June 30, 2008)

Financial Highlights

(In millions, except per share data)					
Fiscal Year Ended June 30	**2008**	**2007**	**2006**	**2005**	**2004**
Revenue	**$60,420**	$51,122	$44,282	$39,788	$36,835
Operating income	**$22,492**	$18,524	$16,472	$14,561	$,9,034
Net income	**$17,681**	$14,065	$12,599	$12,254	$,8,168
Diluted earnings per share	**$ 1.87**	$ 1.42	$ 1.20	$ 1.12	$ 0.75
Cash dividends declared per share	**$ 0.44**	$ 0.40	$ 0.35	$ 3.40	$ 0.16
Cash, cash equivalents, and short-term investments	**$23,662**	$23,411	$34,161	$37,751	$60,592
Total assets	**$72,793**	$63,171	$69,597	$70,815	$94,368
Long-term obligations	**$ 6,621**	$ 8,320	$,7,051	$ 5,823	$ 4,574
Stockholders' equity	**$36,286**	$31,097	$40,104	$48,115	$74,825