

Microsoft's Income Rose 51 Percent Over 2009

Jessica Mintz, AP Technology Writer

SEATTLE (AP) — A swell of spending by businesses on new computers, software and servers helped push Microsoft Corp.'s earnings for the most recent quarter past Wall Street's expectations.

Business spending on technology slowed to a trickle during the economic downturn. Microsoft's report, released after the market closed Thursday, is the most recent evidence that corporate spending is back in full swing.

Microsoft said the increase in sales to businesses of the newest versions of its Windows operating system, Office programs and server software made up for softer-than-expected revenue from sales of consumer PCs in the quarter.

"We ended up in this great sweet spot in business spending that was re-emerging after the downturn," Microsoft's general manager of investor relations, Bill Koefoed, said in an interview. The pickup "aligned just perfectly with our product launches."

Koefoed said he expects the spending to continue for some time, noting that companies are using more than 400 million PCs that are more than four years old.

For the fiscal first quarter, which ended in September, Microsoft's net income rose 51 percent to \$5.4 billion, or 62 cents per share, from \$3.6 billion, or 40 cents per share, in the same period last year.

In last year's quarter, Microsoft deferred some revenue from Windows sales. Had it not done so, net income would have been only 16 percent higher this year in comparison.

Revenue increased 25 percent to \$16.2 billion, from \$12.9 billion a year ago.

Microsoft beat Wall Street's expectations on both counts. Analysts surveyed by Thomson Reuters had forecast net income of 55 cents per share on \$15.8 billion in revenue.

The Windows division's revenue rose 66 percent to \$4.8 billion. Office and other business software brought in \$5.1 billion, a 14 percent jump. The group that makes server software reported a 12 percent increase in revenue to \$4 billion.

Microsoft's online revenue, which comes primarily from search advertising, edged up 8 percent to \$527 million. That segment widened its operating loss in the quarter to \$560 million, however, as the company continued to spend money on chasing Google Inc., the No. 1 search provider.

The software maker's results tracked with those from other technology

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heavyweights. The two main chipmakers, Intel Corp. and Advanced Micro Devices Inc., have been milking stronger sales to corporations to make up for weakness in consumer demand for PCs.

The consumer PC news wasn't all bad, however. Microsoft said that people shifted to low-end laptops from netbooks, the laptop's smaller but weaker cousin. Apple Inc.'s iPad, which some analysts say may have given possible PC shoppers pause, didn't seem to be cutting into Microsoft's sales.

"We have not seen a material shift away from low-end PCs due to tablets in the market," said Chief Financial Officer Peter Klein said during a conference call. "Instead, we've predominantly seen consumers increase their number of devices."

Intel also reported last week that consumers did start buying computers again in September and predicted demand would hold up through the holiday season.

Besides PCs, Microsoft's other consumer products should be more prominent factors in the holiday quarter. The company will soon start selling Kinect, an add-on for the Xbox 360 game console that can read body movements so players don't need to hold a controller.

Microsoft said it expects the division that makes Xbox 360 increase revenue by 30 percent in the holiday quarter, compared with a year ago, largely due to Kinect's launch.

The company also recently launched a new smart phone system. Earlier Thursday, Microsoft CEO Steve Ballmer hyped Windows Phone 7 at a conference for software developers. The company needs developers to take a leap of faith and build phone apps for its unproven devices if it hopes to compete with Apple Inc.'s iPhone and Google's Android system.

Shares of Microsoft, which is based on Redmond, rose 92 cents, or 3.5 percent, to \$27.20 in extended trading Thursday after the release of results. Earlier, the stock added 23 cents to close at \$26.28.

AP Technology Writer Jordan Robertson in San Francisco contributed to this report.

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