

Microsoft profit jumps 35 pct but investors shrug

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In this March 10, 2010 file photo, Microsoft Windows 7 operating systems are shown for sale at the Microsoft company store, in Mountain View, Calif. Microsoft Corp., reports quarterly earnings Thursday, April 22, 2010, after the market close.(AP Photo/Paul Sakuma, file)

(AP) -- A global rise in computer shipments that helped carry Microsoft Corp.'s net income 35 percent higher in the most recent quarter wasn't enough to satisfy investors who were looking for a bigger boost from recovering business spending.

Microsoft's Windows division reported strong consumer demand but more muted growth from corporate customers.

That didn't mesh with the high expectations recently set by Intel Corp. and other big tech companies. Intel's net income nearly quadrupled on

strong sales of chips for corporate PCs and servers.

Specifically, investors predicted better sales in Microsoft's server division, and expected companies to have placed advance orders for more new software, said Andrew Miedler, an Edward Jones analyst, in an interview.

During a conference call, Microsoft CFO Peter Klein tried to rein in expectations for the pace of a recovery for software companies.

"If you think about what's happened over the last year, the first thing that got hit and decreased earliest and fastest was hardware, and that's what's coming back first," Klein said. "Over the course of calendar 2010 and certainly into 2011 you'll start to see the growth in the overall IT (information technology) spend."

Microsoft's stock fell \$1.15, or 3.7 percent, to \$30.24 in extended trading Thursday. Before results were released, the stock gained 6 cents to close at \$31.39.

For the January-March fiscal third quarter, Microsoft earned \$4.01 billion, or 45 cents per share. That was higher than the 42 cents per share forecast by analysts surveyed by Thomson Reuters. It was an increase from \$2.98 billion, or 33 cents per share, a year ago.

Revenue rose 6 percent to \$14.5 billion, slightly more than the \$14.4 billion analysts were expecting. Microsoft had \$13.6 billion in revenue in the same quarter a year ago.

The division responsible for Windows increased revenue 28 percent to \$4.4 billion. Microsoft's general manager of investor relations, Bill Koefoed, said during a conference call that sales of copies of Windows for consumers rose 35 percent. Business licenses for Windows, which

are more profitable for Microsoft, grew 15 percent.

Microsoft's online business, which includes Web search and online advertising, saw revenue rise 12 percent to \$566 million, but it still posted a wider operating loss of \$713 million.

Microsoft has started making payments to Yahoo Inc. as part of a Web search deal that the two forged last year. This quarter, the payments amounted to \$78 million. But Microsoft is not operating the technology behind Yahoo's search right away, and it doesn't expect the partnership to contribute to revenue until the second half of fiscal 2011.

Revenue in the business software group, which makes Office and other programs, fell 6 percent to \$4.2 billion. Microsoft is waiting to report \$305 million in Office revenue until after the upcoming Office 2010 launches in the current quarter.

Revenue from Microsoft's entertainment division, which makes the Xbox 360 game system and the Windows mobile operating system, edged up 2 percent to \$1.7 billion.

Microsoft didn't give revenue or earnings guidance for the next fiscal year, which starts in July. But Klein said he expects sales of Windows 7, the new Office 2010 and updates to SharePoint and SQL Server, two business products, to drive revenue. Klein also said he expects the Web advertising market to improve in fiscal 2011.

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