

Microsoft 2Q earnings edge down on slow PC sales

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In this Jan. 19, 2011 photo, Microsoft Windows 7 operating systems are on display at a computer store in Santa Clara, Calif. Microsoft is set to report its fourth-quarter results Thursday, Jan. 27, 2011 after the close of trading on Wall Street. (AP Photo/Paul Sakuma)

(AP) -- Microsoft Corp. said Thursday that its net income for the latest quarter fell slightly from a year ago, and it beat Wall Street's expectations despite the weak personal computer market.

Sales of Office 2010 to consumers and businesses buoyed the results, as did the popularity of Kinect, Microsoft's new motion-sensing controller

for the Xbox 360 video game system.

Microsoft's net income for the October-December quarter was \$6.63 billion, compared with \$6.66 billion in the same period last year. Thanks to stock buybacks, net income rose to 77 cents per share, from 74 cents. Analysts surveyed by FactSet were expecting net income of 69 cents per share for the fiscal second quarter.

Much of Microsoft's business depends on selling copies of the Windows operating system and Office desktop software, products that usually rise and fall with fluctuations in the personal computer market.

Microsoft launched Windows 7 in the same quarter of 2009, making for a tough comparison. Revenue plunged 30 percent in the Windows division to \$5.1 billion, in a quarter when worldwide personal computer shipments only grew about 3 percent, as Apple Inc.'s iPad and the promise of more tablet devices to come made consumers think twice about what kind of device to buy.

However, the division that sells Office software and other programs saw revenue rise 24 percent to \$6 billion. Big companies that put off buying new technology during the worst of the recession are more willing now to upgrade their systems. Microsoft said the division's revenue from businesses rose 18 percent while revenue from consumers jumped 49 percent, both because of sales of Office 2010.

Strength in the entertainment and devices division, which is responsible for Xbox 360, also helped make up for weak Windows sales. Microsoft says it sold 8 million Kinect controllers, helping push revenue for the segment up 55 percent to \$3.7 billion.

In all, Microsoft's revenue edged up 5 percent to \$20 billion, topping analysts' expectations for \$19.2 billion in revenue.

The software maker rushed out its earnings report a few minutes early, just before the markets closed for the day. Shares spiked to more than \$29 per share in heavy trading about 15 minutes before the closing bell, before dropping back to \$28.87, a 9-cent gain for the day.

"A preproduction draft of our earnings release was discovered by one or more media sources who then published our results to the Web before market close," Bill Koefoed, Microsoft's general manager of investor relations, said in a statement. "After consulting with NASDAQ, we have posted our official numbers. We apologize for any confusion and will review our procedures to ensure this does not happen again."

This has happened before to other companies, including The Walt Disney Co. last year. A reporter accessed the quarterly report by guessing the Web address Disney would use before the information was made public, based on the pattern used in past quarters. Microsoft did not immediately say whether the media used a similar tactic to obtain the early results.

Despite a successful holiday season for Kinect, Microsoft still needs to prove it is heading in the right direction in areas where it currently lags behind the market leader. Thursday's report included a wider loss in the online division, which is mostly made up of online advertising. Google Inc., which makes almost all of its money from online advertising, saw its earnings in the same period rise 29 percent to \$2.5 billion.

Devices running a new smart phone system, Windows Phone 7, went on sale during the quarter, but in its quarterly filing with the Securities and Exchange Commission, Microsoft did not mention its contribution to the entertainment and devices division, which also houses Xbox.

Investors sent shares down 9 cents to \$28.78 in extended trading.

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