

# Microsoft 2Q beats Street despite soft PC market

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In this Jan. 7, 2012 photo, attendees at the National Retail Federation visit a Microsoft display, in New York. Microsoft releases quarterly financial results Thursday, Jan.19, 2012, after the market close. (AP Photo/Mark Lennihan)

Microsoft Corp. battled through a weak PC market to post flat earnings in the final quarter of 2011, boosting sales of servers, Xbox games and its Office productivity software while trimming losses at its Bing search engine.

The quarter wasn't as bad as some industry analysts feared, given that flooding in Thailand constricted the supply of hard disk drives used in personal computers. Microsoft also witnessed a wave of consumers buying Apple Inc.'s popular iPad, which cut into sales of miniature laptop PCs known as netbooks.

Still, Microsoft's earnings modestly topped expectations. That was largely thanks to strong business demand for software and services, and an upbeat holiday season for the Xbox game console and the accompanying Kinect motion controller.

Its shares rose 70 cents, or 2.5 percent, to \$28.82 in after-hours trading Thursday.

Net income in the company's second quarter through December came to \$6.62 billion, down slightly from the \$6.63 billion a year ago. Earnings per share came to 78 cents, up a penny from a year ago, as the outstanding share count fell.

Revenue rose 5 percent to \$20.89 billion.

Analysts polled by FactSet were expecting slightly weaker earnings of 76 cents per share. Sales were below the \$20.92 billion expected.

"People were afraid it was going to be much, much worse," said Colin Gillis, an analyst with BGC.

Gillis said cost controls and a second-consecutive quarter of reduced losses at Bing helped results. Continuing growth in its Office software division was also encouraging, he said.

The company said PC sales were down an estimated 2 percent to 4 percent from a year earlier. Netbook sales made up just 2 percent of the overall PC market, down from 8 percent a year ago as the iPad decimated the lightweight portable computer category.

Microsoft, based in Redmond, Wash., is now looking ahead to the release of Windows 8, an operating system that should work similarly over PCs and tablet computers.

It is also pinning hopes on a new category of PCs called Ultrabooks, which mimic Apple's MacBook Air in form, but which may also utilize a touch screen that would work on the upcoming Windows. A beta version of Windows 8 is due out late next month.

"We're on track, we feel really good about where we are on the product, and the next super important milestone is the beta release," said Bill Koefoed, Microsoft's general manager of investor relations.

Although analysts expect another weak quarter for PCs, sales are seen strengthening as the year goes on.

The big question is whether Microsoft can deliver results on a whole range of new products from its Windows Phone smartphone operating system to Windows 8 and its Office 365 suite of cloud-based productivity applications.

"It's a year of the product cycle" for Microsoft, said Josh Olson, a technology analyst for Edward Jones. "How well they bring those product offerings to market will say a lot about the Microsoft story this year."

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