Microsoft's answer to the iPad is still in pieces

SEATTLE (AP) -- Instead of unveiling an elegant response to the iPad, Microsoft came to the tech industry's premier gadget show with a collection of exposed computer guts, news about microchips and a shallow preview of yet another Windows.

The uninspiring performance served as a reminder that the world's largest software maker remains years from a serious entry into the tablet craze, raising more doubts about whether Microsoft Corp. will ever be able to grab a meaningful piece of this fast-growing segment. If it can't, Microsoft Corp.'s dominance of personal computers may become increasingly irrelevant as people embrace ever-sleeker portable devices.

CEO Steve Ballmer mostly lingered on what went right last year when he gave the company's customary keynote on the eve of the International Consumer Electronics Show on Wednesday. He had his share to boast about. Xbox 360 and the Kinect motion-sensing controller that's racked up more than $1 billion in sales in just two months, a ground-up overhaul of the Windows smart-phone software and rapid adoption of Windows 7 on PCs are all legitimate successes.

Still, it's hard for anyone to applaud Microsoft without noting the threats posed by the growing popularity of Apple Inc.'s iPad. It's also hard to see Windows as a tablet contender amidst an onslaught of new tablets running Google Inc.'s Android software, which has already helped turn mobile phones into mini-computers.

Those concerns have been weighing on Microsoft stock, which has hovered around the $20 to $30 range for the past decade. Apple, on the other hand, has seen its share price more than triple since the first iPhone was announced in early 2007. Last year, Apple's market capitalization surpassed Microsoft's, making Apple the second-largest U.S. public company after Exxon Mobil Corp.

Microsoft has not been absent from the tablet discussion - Windows tablets have been around for years, but the devices never caught on with the mainstream. At last year's gadget show, Ballmer demonstrated a sleek "slate" from Hewlett-Packard Co. that runs Windows 7, and today there are several iPad-esque tablets that use Microsoft's operating system.

But those gadgets have none of the iPad's cachet, and Microsoft has done little to market them. And it's the upcoming Honeycomb version of Android, Google's first to be designed specifically for tablets, that is seen as the best shot to challenge Apple.

Many analysts and design experts say Windows 7 is doomed to fail as a tablet system because it was created with the keyboard and mouse in mind. At best, said technology industry analyst Rob Enderle, Windows 7 tablets are a stopgap measure

while Microsoft pushes ahead on what will likely be called Windows 8.

Microsoft declined to make Ballmer available for an interview Thursday. Given the rudimentary proof-of-concept work Microsoft demonstrated Wednesday, and the difficulty of the task of building a multi-platform operating system, analysts don't expect a new Windows to arrive for at least another two years. Microsoft moved late in part because it didn't take tablets seriously.

"Remember, we just had the netbook scare," the analyst said in an interview. Netbooks, a class of cheap, under-powered laptops that at first ran versions of the free, open-source Linux operating system, were heralded as the end to Windows' domination. But Windows soon edged out Linux on netbooks; shortly thereafter, consumers realized the devices weren't good for such tasks as watching online video. The phase passed so quickly that when the industry moved on to tablets, Microsoft expected to see the same progression, Enderle said.

The factor Microsoft apparently failed to take into consideration was Apple, which scoffed at netbooks but took the tablet very seriously. When the iPad launched, Apple's design and marketing savvy tipped tablets into the mainstream.

"Now, they recognize that they've got a problem," Enderle said.

In the near term, worrying about Microsoft crumbling at Apple's feet seems overblown despite its stagnant stock. After all, the software maker has for years handily fended off challenges to its cash cows, Windows and Office, from the likes of Google and Apple.

The company, with more than $40 billion in cash on its balance sheet, can afford to slog from behind in areas such as search and smart phones. Its earnings rose 29 percent and revenue grew 7 percent in its last fiscal year that ended in June, while most other companies were foundering in the global recession.

Microsoft's dividends are generous and steady. Ballmer, a lightning rod for criticism from the media, wins high praise from analysts and large shareholders for delivering quarter after quarter of strong results that just about any other CEO would envy.

But some analysts fear that missing the tablet boat might make a lethal crack in Microsoft's complete dominance in the PC market.

Wells Fargo Securities analyst Jason Maynard said he worries that even though Microsoft still generates the bulk of its wealth from corporate spending on technology, consumers are starting to have more sway in deciding the kinds of devices that make it into the workplace.

This trend, Maynard said, could become the "Trojan horse" that Apple needs to increase Mac sales to businesses, or that Google needs to chip away at Microsoft's hold on e-mail and desktop software.

When Microsoft changes direction, it must weigh the affect its moves will have on more than a billion Windows PC users. Roger Kay, founder of the research group Endpoint Technologies Associates, said this hobbled Microsoft's tablet planning. It can't afford to repeat the pattern when the next hot device trend lands.

"It's clear Microsoft has to become more nimble," Kay said. "It may be able to recover from this tablet debacle, but this won't do for business as usual."

AP Technology Writer Joelle Tessler in Washington contributed to this report.

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