

Microsoft's 3Q earnings grow 31 pct; stock falls

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Microsoft Corp.'s latest quarterly earnings rose 31 percent even as sales of its Windows operating system sagged.

The fiscal third-quarter results released Thursday exceeded analyst estimates.

Still, it marks the second straight quarter that revenue in Microsoft's Windows division has dropped from the previous year.

That may heighten investor worries that Microsoft's lucrative franchise of licensing software for personal computers may be heading into a gradual decline. The company faces threats from the iPad and other tablet computers that rely on rival operating systems made by Apple Inc. and Google Inc.

Revenue in Microsoft's Windows division fell 4 percent, slightly worse than the fall-off in PC shipments tracked by the research firm IDC for the same three month stretch ending in March.

Microsoft shares fell 55 cents, or 2 percent, to \$26.16 in extended trading Thursday after the quarterly results came out. The stock has fallen by about 6 percent so far this year. The Dow Jones industrial average, which includes Microsoft, grew 10 percent during that time.

The tablet threat is dogging Microsoft even though most of its business is thriving.

The company, which is based in Redmond, Washington, still has hot-selling products: among them, the latest version of its Office software suite for desktop computers and its Kinect motion-sensing controller for the Xbox 360 video game system.

But the boom days might not last much longer unless Microsoft can overcome its late start in tablets and become more formidable in Internet services, where both consumers and businesses are spending more time and money.

Smartphones, a handheld computing field currently dominated by Apple, Google and Research In Motion Ltd., also remains a weak link for Microsoft.

Microsoft earned \$5.2 billion, or 61 cents per share, in the January-to-March period. That compares with net income of \$4 billion, or 45 cents per share, a year ago.

The results included a tax benefit of 5 cents per share from a settlement of an audit covering 2004 to 2006. Even without that one-time gain, Microsoft's earnings would have topped the average estimate of 55 cents per share among analysts surveyed by FactSet.

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Revenue increased 13 percent to \$16.4 billion — about \$250 million above analyst estimates.

Microsoft's online operations made progress in the latest quarter, boosted by gains from the early stages of an Internet search partnership with Yahoo Inc. Microsoft's online revenue increased 14 percent from a year ago, but still suffered an operating loss of \$726 million.

Driven by the Kinect demand, revenue in the company's entertainment division climbed 60 percent in the quarter.

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