

Microsoft Shares Tumble as Profit, Sales Miss Expectations  
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Microsoft posted a steeper-than-expected 17 percent drop in quarterly revenue and said its business continued to be hurt by the weak global PC and server markets, sending its shares tumbling.

The world's largest software maker, whose operating systems power the vast majority of the world's personal computers, offered little hope for a turnaround in technology until next year, despite recent optimism from others in the sector.

"We still see conditions being challenging for the balance of this calendar year," Chief Financial Officer Christopher Liddell said in a telephone interview.

"At least sequentially, we are seeing a little bit of growth. While things are not necessarily getting better, they may have have bottomed out," said Liddell.

Microsoft earned \$3.045 billion, or 34 cents a share in its fiscal fourth quarter, on sales of \$13.1 billion, compared with \$4.297 billion, or 46 cents a share, on sales of \$15.84 billion in the same period last year.

Analysts who follow Microsoft expected the company to turn in a gain of 36 cents a share on sales of \$14.37 billion, according to a consensus from Thomson Reuters.

Microsoft shares , which closed Thursday at \$25.50, fell about 6 percent in extended trading.

"They were really light on revenue. I hope they'll highlight that on the call, give more clarity. I would hope in the call they're going to tell us where the dollars are," said Kim Caughey, senior analyst at Fort Pitt Capital Group.

The company is preparing to bring out the latest version of its operating system, Windows 7, on Oct. 22. Liddell said that release would not, on its own, spark a recovery in PC sales.

Rumors that Microsoft and Yahoo were once again talking about an online advertising partnership persisted through the quarter, but neither company would comment and no deal emerged. Microsoft attempted to buy Yahoo last year to build a more formidable challenge to Web search leader Google, but walked away after Yahoo spurned an offer worth \$47.5 billion.

Microsoft's fortunes are tied to the health of the PC market, and this quarter was another doozy. Research groups say personal computer shipments fell in the period as businesses continued to curb technology spending during the economic downturn.

"Spending has been sparse by businesses and we're not in full recovery mode yet. We're not in big-ticket mode, which is businesses purchasing a lot of equipment and a lot of software," said **Laxmi Poruri, a partner at Primary Global Research**. "They're doing small projects and that's going to hurt your margins."

"There is a lot of uncertainty," Poruri added. "When you have a product and a recent history of an operating system that didn't work, which is Vista, and you have a new one coming up, you're not going to jump on the bandwagon straight away, especially in an environment when your spending is going to be scrutinized."

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