

The New York Times

July 23, 2009

Microsoft Sales Drop Sharply, Sees No Quick Recovery

NEW YORK (Reuters) - Microsoft Corp posted the first-ever drop in annual sales of Windows and its quarterly revenue fell a steeper-than-expected 17 percent as its business continued to be hurt by the weak global PC and server markets.

The news sent Microsoft shares down 8 percent and took the shine off a big U.S. stock market rally earlier in the day that had driven the Dow Jones industrial average above 9,000 points.

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 rival International Business Machines Corp and chip maker Intel Corp.

"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 bottomed out," said Liddell.

LIGHT ON REVENUE

Microsoft reported fiscal fourth quarter net profit of \$3.045 billion, or 34 cents per share, compared with \$4.297 billion, or 46 cents per share, in the year-ago quarter.

Profit excluding items was 38 cents per share for the quarter ended June 30, beating analysts' average forecast of 36 cents per share, according to Reuters Estimates.

Sales fell 17 percent to \$13.1 billion, missing analysts' average estimate of \$14.48 billion. Annual sales of the company's Windows operating system -- its first and most important business -- fell for the first time on record.

"They were really light on revenue. They need to explain where the money went. If I was Nancy Drew this would be the case of the missing revenue," said Kim Caughey, senior analyst at Fort Pitt Capital Group, referring to the fictional detective.

Wall Street highlighted the lack of big tech projects.

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

SLASHING COSTS

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

With sales under pressure, the Redmond, Washington-based company is focusing on controlling costs, announcing 5,000 job cuts in January.

For fiscal year 2010, which started July 1, the company is targeting \$26.6 billion to \$26.9 billion in operating expenses, slightly cutting the lower end of its estimate from three months ago. Comparable expenses in the fiscal year just ended were \$25.4 billion.

Microsoft's shares fell 8 percent to \$23.44 in extended trading, after closing up 3 percent at \$25.56 on Nasdaq, contributing to losses on stock futures across the board.

At Thursday's close, the stock had risen 70 percent since early March, on hopes that Windows 7 system will be a hit and a positive reaction to its new Bing search engine.

(Reporting by Bill Rigby and Tiffany Wu; Editing by Richard Chang, Bernard Orr)