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\$14.45 Billion Q3 Revenue for Microsoft, \$68.0 Billion by Mid-2008

And yet the Redmond company underperformed

On April 24, 2008, Microsoft reported what it referred to as a record third-quarter revenue of \$14.45 billion. This figure is correlated with an operating income of \$4.41 billion, which translates into diluted earnings per share of just \$0.47. Although the Redmond company is presenting record revenue to its shareholders, the fact of the matter is that the financial results of the third-quarter ended on March 31, 2008 are suffering from the full blow of the also record European Commission fine of \$1.42 billion. "Our third-quarter results demonstrate the benefit of our diversified business model. Our broad span across geographies, product categories and customer segments is a tremendous asset and supports our outlook for double-digit revenue, operating income and earnings per share growth for this fiscal year and also for fiscal year 2009," revealed Chris Liddell, chief financial officer of Microsoft. Microsoft failed to focus on the Windows client division in order to explain the \$14.45 billion revenue. The Redmond company chose to point instead to its line of server products introduced at the end of February 2008, including Windows Server 2008, SQL Server 2008 and Visual Studio 2008. According to statistics delivered, the revenue associated with the Server and Tools division jumped no less than 18% in the past quarter. At the same time, benefiting from the Halo hype, the Entertainment and Devices posted a revenue increase of 68% compared with the same quarter of 2007, with high demand and sales of Xbox 360 consoles. "The breadth of our product offerings and our ability to provide solutions across a range of customer and partner needs paid off again this quarter. The third quarter also kicked off the largest enterprise platform launch in our company history, which highlights Windows Server 2008, SQL Server 2008 and Visual Studio 2008. These new products strengthen our ability to help business customers and partners save money, optimize their people, processes and technology, and position IT as a strategic asset for their businesses," stated Kevin Turner, chief operating officer of Microsoft. But the real story is what Microsoft is not saying. The Redmond company has failed to offer a comparison with the third quarter of 2007. At the end of March 2007, Microsoft reported a revenue of \$14.39 billion and, in this context, Q3 2008 with \$14.45 billion delivers only an insignificant growth. But at the same time, the company's operating income dropped dramatically from \$6.59 billion in Q3 2007 to just \$4.41 billion for the past financial quarter. "The financial results for the third quarter of fiscal year 2007 contained the recognition of \$1.67 billion of revenue and operating income that had been deferred from the first half of the year related primarily to technology guarantee programs. Operating income also included \$154 million of legal charges. Diluted earnings per share included \$0.12 per share associated with the technology guarantee program, \$0.01 for legal charges and \$0.02 for tax benefits," Microsoft explained. However, financial results are expected to pick up in the future. At this point in time, Microsoft forecasts \$15.5 billion to \$15.8 billion revenue for the fourth quarter of FY 2008 with \$5.8 billion to \$6.2 billion operating income. Drawing the line on the 2008 fiscal year, the Redmond company projected a total revenue of \$66.9 billion to \$68.0 billion with operating income totaling \$26.7 billion to \$27.4 billion by mid-2008.