

# First-ever Microsoft dividend well-timed

Bill Barnhart

January 17, 2003

The dividend tax cut bandwagon rolled through Redmond, Wash., on Thursday. Microsoft jumped on.

The software developer, which has never paid a dividend in 17 years as a public company, said it would pay an annual dividend of 16 cents a share.

The announcement comes on the heels of last week's proposal by President Bush to abolish the double taxation of corporate net income that is paid to shareholders as dividends. Typically, dividends are paid from after-tax corporate net income and taxed again as ordinary income to shareholders.

So-called growth companies frequently forgo dividends, instead reinvesting net income. Shareholders hope to reap capital gains that are taxed at a lower rate than dividends.

Analysts expect other cash-rich technology companies will closely watch the reaction to Microsoft's decision.

At Thursday's closing stock price of \$55.35, the Microsoft dividend yield would be less than 0.3 percent. The dividend yield of the Standard & Poor's 500 stocks as a whole is 1.7 percent. Semiconductor giant Intel pays a dividend yield of nearly 0.5 percent.

"Declaring a dividend demonstrates the board's confidence in the company's long-term growth opportunities and financial strength," John Connors, chief financial officer, said in a statement Thursday.

Microsoft shares slipped in after-hours trading. Analysts cited the company's cautious outlook for personal computer sales and information-technology spending by business, not the dividend news.

The company posted a quarterly profit of \$2.55 billion, or 47 cents a share, beating most analysts' forecasts. But officials said forecasts of its revenues for the rest of the fiscal year, ending June 30, were too high.

The initial dividend payout is set for March 7 for shareholders of record Feb. 21. The company also announced a two-for-one stock split.

"Microsoft has reached a stage when its growth rate will slow," said Michael Painchaud, research director of Market Profile Theorems, an independent stock research firm based in Seattle.

Painchaud said the dividend announcement was a normal part of the company's life cycle. But he added that the timing can be seen in a political context.

Since 1998, Microsoft has engaged in bruising battles with the federal government over antitrust allegations.

The Bush proposal to eliminate the so-called double taxation of net income paid as dividends faces stiff resistance in Congress. Bush needs to rally support for quick action on his plan. Just last week, a Microsoft spokesman said the company had no plans to pay a dividend.

"If you want to be Machiavellian, you might say that Microsoft has had a lot of problems with the federal government, so how about a little PR," said Painchaud. "We can buy back our shares or get on the train of less taxation of dividends."

Other computer technology companies, including Oracle, Dell Computer and Cisco Systems, have said they would consider implementing a dividend payment if the Bush plan flies.

Microsoft has amassed billions of dollars in cash and short-term securities. At the end of the year, the company held \$43.4 billion in cash and short-term investments, up 12 percent from June 30. At the end of last year, cash and short-term securities represented 64 percent of the company's assets, up from 57 percent at the end of June.

With 5.35 billion shares outstanding, the 16-cent dividend would cost Microsoft \$856 million, a third of the company's fiscal second-quarter net income of \$2.55 billion.

Charles Callard of the independent stock research firm Callard Asset Management in Chicago said upbeat prospects for a substantial stock market rally this year, assuming a quick conclusion to the standoff with Iraq, might have prompted another company to deploy its cash to buy back shares.

"I think it's more political than economic," he said, noting that Microsoft didn't wait until the Bush tax cut became law.

Bush is lining up support for his plan. Pressure to recast the dividend tax cut as a fraction of dividend income or a maximum dollar amount would destroy the White House's stated principle behind its proposal.

Administration officials say the double taxation of dividends is an inherently unfair system that leads companies to skew their financial strategies toward debt and to avoid reporting taxable earnings.

Microsoft would not need to pay a dividend to benefit from the Bush tax plan. The plan, as described last week, would reward investors in companies that retain earnings and don't pay dividends. Shareholders in such companies would be allowed to increase their cost basis in their stock, thereby reducing their capital gains tax when they sell their shares.

Thursday's action: Stocks fell Thursday amid growing concern about the possible onset of a U.S.-led war against Iraq.

Gold and oil prices rose. Gold futures jumped \$7 an ounce, to \$358.10--nearly a six-year high. Oil futures rose 45 cents a barrel, to \$33.66.

The Dow Jones industrial average fell 25.31, to 8697.87. International Business Machines, one of the 30 Dow industrials, closed down \$1.54, to \$86.05.

After the close of New York trading, IBM posted fourth-quarter results. Net income fell for the sixth quarter in a row, but the company's sales advanced. IBM shares edged higher in early after-market trading.

The broader Standard & Poor's 500 index fell 3.62, to 914.60. The Nasdaq composite index lost 15.05, to 1423.75.

Treasuries closed lower, after a report on economic conditions in the Philadelphia area showed modest growth.

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