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## Microsoft Says It Is Planning to Double Its Dividend

By STEVE LOHR

**M**icrosoft, which joined the ranks of dividend-paying companies this year, announced yesterday that it would double the payout.

The higher payment — an annual dividend of 16 cents a share — is still small compared with the enormous piles of cash generated by Microsoft's dominant desktop personal computer software franchises, the Windows operating system and the Office suite of programs.

Microsoft's treasury has \$50 billion in cash, and it continues to grow. The company generates about \$12 billion in cash a year.

At the new level, Microsoft's dividend will cost about \$1.74 billion a year.

Still, the move is another indication that Microsoft is taking steps to appease shareholders' demands for a share of the corporate wealth as Microsoft matures, its growth slows and its stock price levels off.

Microsoft issued only a short statement yesterday declaring the higher dividend, payable on Nov. 7 to shareholders of record as of Oct. 13. But in an interview last month, John Connors, Microsoft's chief financial officer, left little doubt that the company intended to continue to increase its dividend, calling the initial dividend declaration merely "a good starting point."

He acknowledged pressure from institutional shareholders, noting that "the cash distribution strategy for maximizing shareholder return is front and center in shareholders' minds."

Microsoft has said it wants to make sure its antitrust problems are behind it before it gives more cash to shareholders. The company has settled the lawsuit brought by the United States government, but a major antitrust investigation continues in Europe. It also faces a few remaining private antitrust suits in the United States, including one by Sun Microsystems.

Microsoft also faces costs as it makes the transition in its compensation system, announced in July, away from stock options to stock grants instead. If Microsoft wants to buy shares to offset the dilution caused by the exercise of employee options issued in previous years and to offset this year's stock grants, that could consume about \$9 billion in cash flow this year, estimates Richard Sherlund, an analyst at [Goldman, Sachs & Company](#).

But after the transition period to a new compensation system, Microsoft should feel freer to hand more cash to shareholders. At 16 cents a share, the dividend yield on Microsoft's stock, given its current price — \$28.34, up 50 cents for the day — is about 0.6 percent. A yield of 2 percent would cost Microsoft about \$6 billion a year, or half its annual cash flow. "A lot of investors are pushing for 2 percent," Mr. Sherlund said.

Another possibility, analysts say, would be a one-time payment in addition to the yearly dividend. "I certainly don't see why Microsoft needs a cash position of \$50 billion," said one institutional shareholder. "Why not give \$10 billion of that back to the shareholders? The company would still be holding on to \$40 billion."

The more important investment issue for Microsoft over the next few years will be its growth rate, not its dividend policy, said Jayson Maynard, an analyst for [Merrill Lynch & Company](#). The things to watch, Mr. Maynard said, are how well Microsoft does in selling server software to corporate data centers, whether it can generate more growth in its desktop software businesses, and whether it can defend itself against the bottom-up challenge from Linux, an increasingly popular operating system that is distributed free.

"The big question for Microsoft is whether its growth is going to be 5 percent or 10 percent in the future," Mr. Maynard said. "That's a lot more significant to Microsoft and to investors than its dividend rate."

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