Google Inc. (GOOG) has surpassed Microsoft Corp. (MSFT) to become the world’s second-largest technology company as computing over the Internet reduces demand for software installed on desktop machines.

Google rose 1 percent to $761.78 at the close in New York, gaining a market capitalization of about $249.9 billion. Microsoft, the world’s biggest software maker, fell less than 1 percent to $29.49, for a valuation of $247.2 billion.

The milestone follows Google’s rise from a search-engine invented by two Stanford University students into an advertising powerhouse that makes the world’s most used mobile operating system and tool for digging up information on the Web. It also reflects the ascension of the Internet as the delivery channel for more of the software and computing tasks that were once left to the Microsoft-dominated PC industry.

“The PC hardware business is obviously struggling,” said Martin Pyykkonen, a Greenwood Village, Colorado-based analyst at Wedge Partners Corp. “The transition here is pretty straightforward in terms of where things have moved to and certainly that’s cloud, that’s Web.”

Only Apple Inc. (AAPL), the world’s most valuable company at $618.1 billion, tops Google among technology businesses. Apple passed Microsoft in 2010 on rising sales of iPhones and iPads -- devices that helped usher in a new era of computing that’s less reliant on PCs.

**Market Leader**

Google controls 66 percent of the U.S. search market, while Microsoft is a distant second at 16 percent, according to ComScore Inc. This year, Google is on track to displace Facebook Inc. in the U.S. as the biggest outlet for display advertising, including banner ads, according to EMarketer Inc. Google will also remain No. 1 for mobile ads in the U.S., EMarketer projects.

At the same time, Google’s Android software powered 64 percent of smartphones in the second quarter, up from 43 percent in the same period a year earlier, according to Stamford, Connecticut-based researcher Gartner Inc. Apple’s software was a distant second at 19 percent and Microsoft had just 2.7 percent.

While Redmond, Washington-based Microsoft operates an online business including the Bing search engine, it still gets most of its revenue from the Windows and Office software used primarily on PCs.

Windows sales have slumped as some consumers opt for tablets instead of cheaper laptops running Microsoft’s software. The next version of Windows, due Oct. 26, is designed for touch-screen technology in tablets and will power handheld devices including Surface, Microsoft’s first foray into hardware. Google has introduced its own tablet, Nexus 7.

Microsoft hit a market capitalization of more than $430 billion in July 2000, according to Bloomberg data. Microsoft fell to about $135 billion in March 2009 during the economic crisis, before recovering with the market.

To contact the reporter on this story: Brian Womack in San Francisco at bwomack1@bloomberg.net

To contact the editor responsible for this story: Tom Giles at tgiles5@bloomberg.net