IBM scoops up software maker SPSS in $1.2B deal

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(AP) -- IBM Corp. is bulking up its most profitable division with a $1.2 billion acquisition of business software provider SPSS Inc., a deal that also reflects the power of wealthy technology companies to throw their money around despite the recession.

The all-cash deal announced Tuesday represents a 42 percent premium over Chicago-based SPSS's closing price of $35.09 on Monday.

SPSS's software helps tell companies "what's coming around the corner" and is "a really terrific acquisition" for IBM, said Charles King, analyst with the Pund-IT Inc. research firm.

"This is really a Cadillac-style technology ... it's well established and well regarded," King said.

SPSS's technology is used to comb through stockpiles of data to predict things such as how a customer will respond to a particular sales pitch, or where hot spots for crime are and where police should be deployed. The company claims its customers include agencies in all U.S. state governments, top U.S. universities and consumer goods, pharmaceutical and market-research companies.

"With this acquisition, we are extending our capabilities around a new level of analytics that not only provides clients with greater insight - but true foresight," Ambuj Goyal, general manager of IBM's Information Management group, said in a statement.

The deal is expected to close later this year, and is subject to shareholder and regulatory approval. SPSS has more than 1,200 employees in 60 countries. The company had $303 million in sales last year and $36 million in profit.

The acquisition fits with IBM's strategy of strengthening its software and services divisions as a critical part of a makeover over the past decade.

IBM has spent more than $20 billion since 2003 on more than 80 acquisitions. Fifty of those acquisitions have been software companies.

One result of the transformation is that IBM, a company known for its mainframes and other computers that have powered back offices for decades, is less reliant now on hardware. Having sold off its personal computer and printing businesses, IBM makes most of its money off services and software.

In the latest quarter - the three months ended June 30 - IBM's software division contributed 43 percent of IBM's overall pretax profit. Expanding its reliance on software is one reason the Armonk, N.Y.-based company is able to keep improving profits even as sales fall because of the economy. IBM recently raised its latest 2009 profit forecast to $9.70 per share, from $9.20 per share.

Separately, IBM also has acquired Ounce Labs Inc., a privately held software company in Waltham, Mass., for an undisclosed amount. IBM said the company makes software that helps businesses reduce the risk and costs associated with security and compliance concerns.

Beefing up the software division was a key reason IBM explored buying Sun Microsystems Inc., a superstar of the dot-com era that struggled with inconsistent financial results for nearly a decade.

The Java technology that Sun invented is a key ingredient of the Internet, and IBM's $7 billion offer for Sun was fueled in part by a desire to have more control over the software's development. The deal collapsed in a dispute over price and other terms.

Oracle Corp. ultimately agreed to buy Sun for $7.4 billion in cash in a surprise twist in the takeover saga. The bidding was one of the first signs that cash-rich tech companies were willing to open their wallets again despite the recession.

Another big tech deal recently was data-storage specialist EMC Corp.'s $2.1 billion pickup of a company called Data Domain Inc., whose technology helps companies cut the amount of information that gets stored multiple times. EMC had been in a fierce bidding contest with rival NetApp Inc. for control of Data Domain.

SPSS shares on Tuesday jumped $14.27, or 41 percent, to $49.36. IBM shares fell 73 cents to $116.90.