

# IBM lifts 2010 forecast but economic worries loom (Update)

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FILE - In this file photo made Jan. 11, 2010, a sign for IBM is shown in New York. International Business Machines Corp. is expected to release second-quarter financial results Monday, July 19, 2010, after the market close. (AP Photo/Mark Lennihan, file)

(AP) -- Uncertainty about the stability of world markets is clouding encouraging signs about the health of the technology sector.

Shares of IBM Corp. fell nearly 4 percent Monday after the computer company beat earnings expectations in the second quarter and raised its guidance for the year.

IBM disclosed a reduction in the value of services contracts, and revenue fell short. And for a company that consistently raises Wall Street's

expectations, IBM's boost to its 2010 net income forecast wasn't enough.

IBM reported Monday that its net income jumped 9 percent to \$3.39 billion, or \$2.65 per share, in the April-June quarter. That topped analyst projections for \$2.58 per share. A year ago, IBM earned \$3.10 billion, or \$2.34 per share.

Revenue in the latest period rose 2 percent to \$23.7 billion, from \$23.3 billion. That was below the \$24.2 billion that analysts expected.

IBM said currency changes hurt revenue by \$500 million in the quarter, something the company said analysts didn't include in estimates.

The turmoil over Europe's debt crisis has hurt IBM because of weakness in the euro relative to the dollar. Because IBM does most of its business outside the U.S., deals done in other currencies are now worth less when they're converted to greenbacks.

The company also reported a 12 percent decline in the value of services contracts signed during the quarter, to \$12.3 billion.

IBM blamed the signings shortfall on an unusually high number of contract extensions it signed last year as customers renegotiated their deals in the recession. IBM's chief financial officer, Mark Loughridge, said that trend is mostly "in the rearview mirror."

Still, investors have been worried about the ability of the governments of Greece, Portugal and Spain to repay perilously high debts. Sluggishness in the U.S. economy's improvement has helped stir fears of a "double-dip" recession.

Such worries have dampened Wall Street's reaction to the results from other technology heavyweights as well.

Last week, Intel Corp. shares barely budged after it delivered its strongest quarter in the company's four-decade history, helped by surging demand for microprocessors for computer servers. Intel does all its deals in dollars, so it wasn't hurt by the currency changes the way IBM was.

Google Inc.'s results leaped on momentum in Internet search advertising, and the company's hiring has accelerated. Google's stock has fallen, in part because of concerns about the weaker euro's effect on Google and the costs connected with hiring new workers.

IBM's new guidance for 2010 calls for net income of at least \$11.25 per share, an increase of a nickel per share over the previous estimate. That reflects IBM's confidence that it can wring more profit from its workhorse services and software divisions and from the rollout of a new mainframe. Still, it was short of the \$11.27 per share that analysts were expecting.

The second quarter was the 30th straight quarter in which IBM has posted higher earnings per share than the year before.

Cost cuts and stock buybacks are important ways IBM boosts its profit. Eight cents out of the 29 cents per share improvement in IBM's second-quarter income came from buybacks.

A bigger factor, though, is IBM's ability to squeeze more from its most profitable divisions.

Corporations are less reluctant to open their wallets than they were a year ago. IBM is in a sweet spot, because its most profitable products can save companies money by allowing them to outsource or automate complicated jobs. IBM is the world's biggest provider of information-technology services, and a major supplier of business software.

IBM also announced several changes to its management ranks.

Steve Mills, who has been leading IBM's software division, now also is in charge of hardware. Loughridge has been given an expanded role in finance; Mike Daniels, who is in charge of technology services, will now be in charge of IBM's entire services business; and Ginni Rometty, who oversees sales, has added marketing and strategy. All are possible successors to CEO Sam Palmisano.

Shares of IBM, which is based in Armonk, N.Y., fell \$4.68, or 3.6 percent, to \$125.60 in extended trading. Before the release of results, it rose 1.4 percent, or \$1.76, to close the regular trading session at \$129.79.

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