

# **IBM sustains earnings streak despite weak economy (Update)**

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(AP) — IBM sustained its nearly decade-long streak of earnings growth as it shook off the economic jitters that have undercut several other technology companies.

Earnings rose 6 percent in the April-June period, despite a 3 percent decline in revenue, to mark the 38th consecutive quarter that IBM's net income has climbed from the previous year.

The achievement comes after tech companies such as Advanced Micro Devices Inc., Informatica Corp. and Lexmark International Inc. have blamed rising fears about a recession, particularly in Europe, for disappointing performance in their most recent quarters. Intel Corp. also warned that the weak global economy is slowing its growth for the current quarter.

IBM's earnings triumph doesn't necessarily mean it won't suffer from the global economic woes, but it is more insulated than many other technology companies.

IBM Corp. has been able to boost its earnings even in periods when revenue has been falling by focusing more on sales of software and technology services, two businesses with higher profit margins than the computer equipment that had provided the company's financial backbone through most of its 101-year history. By 2015, IBM expects software to account for more than half its total profit, up from about 42 percent now.

True to form, software was the only part of IBM's business that didn't register a decline in the latest quarter. Software revenue remained level at \$6.2 billion. To keep things rolling, IBM plans to hire about 200 to 300 software sales specialists per month through the rest of the year, according to Mark Loughridge, the company's chief financial officer. About half of that expansion will occur in the U.S.

On the flip side, IBM plans to trim jobs from other parts of its business, mostly outside the U.S., as part of its effort to ensure the company's earnings continue to climb. Loughridge didn't specify how many people might lose their jobs during the final half of the year, although he stressed most of the cuts will be outside the U.S.

The company's emphasis on selling software and services to corporate and government customers is now being copied by other hardware specialists such as Hewlett-Packard Co. and Dell Inc.

IBM's weak spot during the second quarter was in the region that includes Europe, where worries about unwieldy government debt have heightened uncertainty about the economy's direction. IBM's revenue in Europe, the Middle East and Africa fell by 9 percent from last year.

The turmoil in Europe also hurt IBM's results as currencies there weakened, translating into fewer U.S. dollars.

IBM earned \$3.9 billion, or \$3.34 per share, for the second quarter. That compares with net income of \$3.7 billion, or \$3 per share, at the same time last year.

Without accounting charges for past acquisitions and the company's pension, IBM said it would have earned \$3.51 per share. On that basis, IBM exceeded the average estimate of \$3.43 per share among analysts surveyed by FactSet.

Revenue totaled \$25.8 billion for the latest quarter, down from \$26.7 billion a year ago. The latest quarter's revenue fell about \$500 million below analyst forecasts.

Some analysts may have underestimated how much currency fluctuations would affect IBM's revenue.

IBM said currency changes in the second quarter trimmed about \$1 billion from its revenue. If currency exchange rates had remained the same as last year, the company said its revenue in the latest quarter would have been slightly higher, and flat for the region covering Europe.

In a sign of confidence, IBM raised its adjusted-earnings forecast for the full year to \$15.10 a share. That's a dime above management's last guidance in April. IBM has promised to produce annual earnings per share of \$20 by 2015.

The company, which is based in Armonk, New York, has been able to reliably predict its earnings partly because it locks many of its customers into contracts that guarantee regular payments even in tough economic times. IBM ended with about \$136 billion in contract "backlog," which is expected to convert into revenue in future quarters. That includes \$13.7 billion worth signed during the most recent quarter.

Analysts suspect management sets IBM's earnings hurdle low to reduce the chances of upsetting investors. IBM's earnings have topped analyst estimates in every quarter for the past seven years — a period that has seen its stock price more than double.

IBM shares gained \$5.18, or nearly 3 percent, to \$193.43 in Wednesday's extended trading, after the release of results.

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