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IBM Reports 2008 First-Quarter Results

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ARMONK, NY - 16 Apr 2008:

Diluted earnings of \$1.65 per share, up 36 percent;

Total revenues of \$24.5 billion, up 11 percent;

Global Technology Services revenues up 17 percent; pre-tax income up 45 percent;

Global Business Services revenues up 17 percent; pre-tax income up 23 percent;

Software revenues up 14 percent; pre-tax income up 22 percent;

65 percent of revenues from outside the U.S.; E/ME/A revenues up 16 percent; Asia Pacific up 14 percent; U.S. up 6 percent;

Services signings of \$10.8 billion at constant currency; \$12.6 billion at actual rates.

IBM (NYSE: [IBM](#)) today announced first-quarter 2008 diluted earnings of \$1.65 per share from continuing operations compared with diluted earnings of \$1.21 per share in the first quarter of 2007, an increase of 36 percent as reported. First-quarter income from continuing operations was \$2.3 billion compared with \$1.8 billion in the first quarter of 2007, an increase of 26 percent. Total revenues for the first quarter of 2008 of \$24.5 billion increased 11 percent (4 percent, adjusting for currency) from the first quarter of 2007.

"IBM had a very good quarter, and a good start to 2008. These results reinforce our confidence in IBM's ability to perform well in a dynamic global economy. Our performance is a tribute to the way we have repositioned our company over the past several years, as well as the hard work of IBMers across the globe," said Samuel J. Palmisano, IBM chairman, president and chief executive officer.

"IBM is a different company today, with a number of unique advantages: our global reach and scale, our strength in profitable growth segments, strong recurring revenue and profit streams, products and services that create real value for clients, and the discipline and financial strength and flexibility that enables us to adjust our business model as conditions require.

"We feel good about the rest of the year."

From a geographic perspective, the Americas' first-quarter revenues were \$9.9 billion, an increase of 8 percent as reported (6 percent, adjusting for currency) from the 2007 period. Revenues from Europe/Middle East/Africa were \$8.8 billion, up 16 percent (4 percent, adjusting for currency). Asia-Pacific revenues increased 14 percent (3 percent, adjusting for currency) to \$5.1 billion. OEM revenues were \$696 million, down 16 percent compared with the 2007 first quarter. Revenues from the countries in IBM's growth markets unit were up 11 percent at constant currency and represent about 17 percent of the company's total revenue.

Total Global Services revenues grew 17 percent (9 percent, adjusting for currency) with strong double-digit growth in all lines of businesses. Global Technology Services segment revenues increased 17 percent (9 percent, adjusting for currency) to \$9.7 billion. Global Business Services segment revenues increased 17 percent (9 percent, adjusting for currency) to \$4.9 billion. IBM signed services contracts totaling \$10.8 billion, adjusting for currency, down 2 percent (\$12.6 billion, at actual rates, up 6 percent). Short-term signings increased 6 percent to \$5.6 billion, adjusting for currency (up 13 percent, at actual rates, to \$6.5 billion). The company ended the first quarter with an estimated services backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Integrated Technology Services, Global Business Services and Maintenance, of \$118 billion, adjusting for currency, an increase of more than \$2 billion year over year.

Revenues from the Systems and Technology segment totaled \$4.2 billion for the quarter, down 7 percent (12 percent, adjusting for currency). Revenues decreased 2 percent excluding the year-to-year impact of the Printing System Division divestiture in June 2007. Systems and Technology revenues from System z server products increased 10 percent versus the year-ago period, which reflects the successful introduction of the new z10 enterprise class server. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), increased 14 percent. Revenues from the System p UNIX server products increased 2 percent compared with the 2007 period and revenues from the System x servers were flat year over year. Revenues from the System i servers decreased 21 percent. Revenues from System Storage increased 10 percent and revenues from Technology decreased 20 percent.

Revenues from the Software segment were \$4.8 billion, an increase of 14 percent (6 percent, adjusting for currency) compared with the first quarter of 2007. Revenues from IBM's middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.8 billion, up 16 percent versus the first quarter of 2007. Operating systems revenues of \$529 million increased 1 percent compared with the prior-year quarter.

For the WebSphere family of software products, which facilitate customers' ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, revenues increased 20 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 27 percent and includes growth from the acquisition of Cognos, which closed in the quarter. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 9 percent, and revenues for Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, increased 17 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 3 percent compared with the year-ago quarter.

Global Financing segment revenues increased 3 percent (down 3 percent, adjusting for currency) in the first quarter to \$633 million.

The company's total gross profit margin was 41.5 percent in the 2008 first quarter compared with 40.2 percent in the 2007 period.

Total expense and other income increased 11 percent to \$7.0 billion compared to \$6.3 billion in the prior-year period. SG&A expense increased 10 percent to \$5.6 billion. RD&E expense increased 4 percent to \$1.6 billion compared with the year-ago period. Intellectual property and custom development income increased to \$274 million compared with \$205 million a year ago. Other (income) and expense contributed income of \$125 million in the first quarter of 2008 versus income of \$180 million in the first quarter of 2007, which primarily reflects higher year-to-year hedging losses. Interest expense increased to \$178 million compared with \$73 million in the prior-year period, primarily due to the increase in debt to finance the company's accelerated share repurchase agreements.

IBM's effective tax rate in the first-quarter 2008 was 27.5 percent compared with 28.5 percent in the first quarter of 2007.

Shares repurchased in the first quarter were approximately \$2.7 billion. The weighted-average number of diluted common shares outstanding in the first-quarter 2008 was 1.40 billion compared with 1.52 billion shares in the same period of 2007. As of March 31, 2008, there were 1.37 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$35.2 billion, compared with \$35.3 billion at year-end 2007. From a management segment view, Global Financing debt increased \$1.7 billion from year-end 2007 to a total of \$26.2 billion at the end of March 31, 2008, resulting in a debt-to-equity ratio of 6.9 to 1. Non-global financing debt, which reflects financial leverage associated with accelerated share repurchase agreements, totaled \$8.9 billion, a decrease of \$1.8 billion since year-end 2007, resulting in a debt-to-capitalization ratio of 26.4 percent from 30.0 percent. The cash balance was \$12.0 billion at the end of the first quarter.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the company's failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; breaches of the company's data security measures; changes in the economic environment and corporate IT spending budgets; fluctuations in revenues and purchases, and volatility of stock prices; the company's ability to attract and retain key personnel and its reliance on critical skills; adverse affects from tax matters; environmental matters; currency fluctuations and customer financing risks; customer credit risk on receivables; risks from investing in growth opportunities; the company's failure to maintain the adequacy of its internal controls; the company's use of certain estimates and assumptions; dependence on certain suppliers; changes in the financial or business condition of the company's distributors or resellers; the company's ability to successfully manage acquisitions and alliances; failure to have sufficient insurance; legal, political, health and economic conditions; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM Results -

adjusting for revenues from the Printing System Division divestiture;

adjusting for currency (i.e., at constant currency).

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the first-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II ("Non-GAAP Supplementary Materials") to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/1q08. Presentation charts will be available on the Web site prior to the Webcast.

Broadcast-quality clips of IBM Senior Vice President Frank Kern discussing IBM's business are available at www.thenewsmarket.com/ibm.

Financial Results Below (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

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