

The Report on

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Top of the News...

1st Quarter Profit, Revenue Up 8%

IBM on April 14 announced first-quarter 2003 earnings per share of \$.79 from continuing operations, an increase of 8 percent, compared with \$.73 in the first quarter of 2002.

First-quarter income from continuing operations was \$1.4 billion, also up 8 percent, compared with \$1.3 billion in the first-quarter 2002.

Revenues from continuing operations for the first quarter were \$20.1 billion, up 11 percent (4 percent at constant currency) compared with the first quarter of 2002 revenues of \$18.0 billion.

Profit for the entire company for the first-quarter, including discontinued operations, was \$1.4 billion, or \$.79 per share, compared with \$1.2 billion in net income, or \$.68 per share, last year.

The company's overall gross profit margin from continuing operations was 36 percent in the first quarter, compared to 36.1 percent in the year-ago quarter.

Analysts surveyed by Thomson First Call had on average expected earnings of \$.80 a share for the quarter, but the near-miss didn't faze Wall Street. IBM shares rose after the earnings report was announced.

"In the face of an ongoing difficult environment, we delivered another strong quarter and continued to gain share across our strategic businesses," said IBM CEO Sam Palmisano. "Our results demonstrate that our e-business on demand strategy, which draws on IBM's strengths in business transformation services and open IT infrastructure, is responsive to the needs of our customers."

Palmisano said the top performers of the quarter were the Global Services unit (\$12 billion in signings), the software business (especially database and Web application servers), and certain segments of the hardware business (i.e., eServer xSeries, pSeries and iS-

(Continued on p. 2)

eries servers).

"Going forward, we are well positioned to set the agenda and help customers transform their enterprises to realize the benefits, efficiencies and productivity gains of e-business on demand," Palmisano said

From continuing operations in the first quarter, the Americas revenues were \$8.6 billion, an increase of 5 percent (7 percent at constant currency) from the 2002 period. Revenues from Europe/Middle East/Africa were \$6.3 billion, up 23 percent (3 percent at constant currency). Asia-Pacific revenues grew 14 percent (5 percent at constant currency) to \$4.5 billion. OEM revenues decreased 15 percent (16 percent at constant currency) to \$690 million compared with the first quarter of 2002.

Revenues from Global Services, including maintenance, grew 24 percent (15 percent at constant currency) in the first quarter to \$10.2 billion

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aided by the addition of the former PwC Consulting. Global Services revenues, excluding maintenance, increased 27 percent (17 percent at constant currency). Gross profit margin was 24.9 percent compared with 26.0 percent in the prior-year period. IBM signed services contracts totaling more than \$12 billion and ended the quarter with an estimated backlog of \$113 billion.

Total hardware revenues from continuing operations were \$5.8 billion, a decline of 1 percent (6 percent at constant currency), compared with the first quarter of 2002. Revenues from IBM's eServer xSeries Intel-based products increased. Both IBM pSeries UNIX-based servers and iSeries midrange servers grew revenue. The recently announced p630, with Power4-plus technology, and iSeries servers with e-business on demand capability contributed to the overall growth in revenue.

IBM said revenues from zSeries mainframes were lower in the first quarter due to a combination of customer deferrals of IT decisions and the anticipated introduction of a new zSeries mainframe. However, total deliveries of zSeries computing power as measured in MIPS (millions of instructions per second) increased 3 percent compared with the first quarter of 2002.

"This reflects a positive trend in a challenging operating environment," IBM said.

Finally, revenues from disk storage grew primarily as a result of increasing demand for high-end "Shark" products.

Hardware revenues from microelectronics decreased in the quarter largely related to non-strategic businesses exited last year. Year over year, revenues for the personal computer unit declined consistent with industry trends. However, total hardware gross profit margin improved to 26.6 percent compared with 24.5 percent in the first-quarter 2002.

Software revenues increased 8 percent (2 percent at constant currency) at \$3.1 billion compared with the first quarter of 2002. Middleware products, which include WebSphere and DB2 product families, increased 9 percent (3 percent at constant currency) in the first quarter of 2003.

WebSphere, IBM's family of e-business on demand middleware products, grew 14 percent (8

percent at constant currency) from a year ago. IBM's leading database management software, DB2, grew 22 percent (14 percent at constant currency). Revenues from Tivoli and Lotus declined. Operating systems revenues grew compared with the year-ago period. Overall software gross profit margin improved to 84.6 percent compared with 81.1 percent in first-quarter 2002.

On February 21, IBM purchased Rational Software for approximately \$2.1 billion. The post-acquisition results of operations of Rational are included in the software segment results. Rational develops tools to build, test and manage software projects and further complements the company's middleware family of products.

Global Financing revenues decreased 10 percent (15 percent at constant currency) in the first quarter of 2003 to \$705 million. Revenues from the Enterprise Investments/Other area, which includes industry-specific IT solutions, were \$254 million, an increase of 7 percent (down 2 percent at constant currency) compared to the first quarter of 2002.

In the first quarter, total expense and other income from continuing operations of \$5.3 billion increased 12 percent over the year-earlier period, primarily related to the recent acquisitions of the former PwC Consulting and Rational, partly offset by the benefits of the 2002 productivity and skills rebalancing actions. Selling, general and administrative expense increased 5 percent in the quarter. Research, development and engineering expense also increased 5 percent. Lower intellectual property and custom development income had a negative impact on results compared with the year-earlier period. Other (income) and expense was negatively affected by foreign exchange losses as well as the prior-year sale of the PC desktop manufacturing operations to Sanmina-SCI.

In the first quarter, IBM spent approximately \$65 million on share repurchases. There were 1.73 billion basic common shares outstanding at March 31, 2003. The average number of diluted common shares outstanding in the quarter was 1.76 billion compared with 1.75 billion shares in the same period of 2002.

Contact: <http://www.ibm.com>

New G Series ThinkPad Notebooks Debut

IBM (Research Triangle Park, N.C.) on April 22 introduced the ThinkPad G40, which combines the affordability of a desktop PC with the design and portability of a ThinkPad notebook.

Targeted at users who require a full-featured machine with occasional mobility, the ThinkPad G40 will be marketed mainly among small- to medium-sized businesses, schools and universities, and government agencies.

The G40 addresses notebook users who rely more on AC power than battery power, often migrating from one AC outlet to the next. Some analysts estimate this usage pattern at up to 25 percent of notebooks in the enterprise.

The G40 is available with several processor choices, including the 3.0 GHz Intel Pentium 4 processor, one of the most powerful processors in any ThinkPad notebook, while still meeting the needs of mobile users with up to three-and-a-half hours of battery life.

In addition to standard integrated modem and Ethernet, the ThinkPad G40 also offers the flexibility of dual-band 802.11a/b Wi-Fi capabilities on select models.

The ThinkPad G40 also provides mobility at an affordable price, with an entry price of \$949.

Models of the ThinkPad G40 are generally available with prices starting at \$949 for a model with an Intel Celeron 2.0 GHz processor.

Contact: <http://ibm.com/thinkpad>.

IBM Brings Linux to Small Businesses

Linux adoption among mid-sized businesses is growing. According to Gartner Group, 45 percent of mid-sized businesses are already using or experimenting with Linux, the open source operating system.

These mid-market companies recognize that Linux is a very reliable and cost-effective operating system. The growing support for Linux presents a tremendous opportunity for developers to deliver the Linux-based business applications

these customers require.

To assist in meeting this growing need, IBM on April 11 introduced a new packaged offering that allows its Business Partner network of software vendors and resellers to deliver Linux-based solutions incorporating IBM hardware and software that are priced and designed for the small and medium business (SMB) marketplace.

IBM Integrated Platform Express allows IBM resellers and Independent Software Vendors (ISVs) to add business applications, like e-commerce and customer relationship management, to an integrated hardware and software offering that includes IBM's Intel-based servers and IBM's Express software.

This enables the partners to quickly create an inexpensive, complete Linux-based solution they can resell to SMB customers, as well as a low cost platform they can use to test and deploy new Linux applications.

In addition, by using this platform, developers can respond to market demand faster because the initial integration of the IBM hardware and software is completed by an IBM Business Partner, saving time and money compared to ordering the items separately and integrating each piece.

The IBM Integrated Platform Express offering includes WebSphere Application Server - Express, DB2 - Express and the IBM eServer x225, x235 or x345 systems, along with disk storage and is well suited for businesses in a wide range of industries, including retail, finance, manufacturing, and government.

The hardware and software in this offering are specifically designed and priced to meet the needs of smaller businesses. WebSphere - Express is well-suited for building, deploying and managing Web sites, giving SMBs a reliable, easy-to-deploy foundation that's based on open industry standards, like Linux, Java and XML. DB2 - Express is a new, full function database with aggressively low per user pricing for the mid-market that can be pre-packaged with Partner applications, and features a convenient one or no-click "silent" database installation. The IBM eServer x225, x235 and x345 systems and related storage can meet the needs of price-conscious small and mid-size businesses and are ideally

suited for e-business solutions.

The IBM Integrated Platform Express, will be available in June 27, 2003. The offering will be priced starting at a suggested list price of less than \$4,000 and is available from IBM Business Partners.

Contact: <http://www.ibm.com/linux/integratedplatformexpress>.

IBM Helps Untangle Decades-Old "Spaghetti Code"

IBM on April 10 launched new services and software to help customers deal with the skyrocketing costs and complexity of maintaining decades-old software applications that run 70 percent of the world's major business operations, including most major credit card transactions and stock trades.

Called "spaghetti code" by the computer industry because the software code has been altered so often, some applications date back 20 years, and in some cases, as far back as 1964, before many of today's software programmers were born. Even so, such applications handle about 30 billion basic business transactions every day, including manufacturing processes and payroll systems, for companies around the world.

"Businesses can't afford to 'rip and replace' older applications that run their daily operations, even though it costs 80 cents of every dollar of the average software budget to maintain older 'legacy systems,'" said Kerrie Holley, distinguished engineer, IBM Global Services. "IBM is helping customers integrate 'proprietary' systems that grew over the past two decades with the latest applications based upon open standards, such as Web services. In the process, we're helping companies transform their businesses."

IBM Global Services is offering two new services offerings based upon its expertise in consulting and application management developed over a decade of customer engagements. The new IBM Business Consulting Services has developed a tool that can estimate an organization's potential costs savings and benefits from the two new ser-

vices offerings, which are:

- Application Portfolio Management Services enable IBM consultants to evaluate all of an organization's applications, which could number in the thousands for larger companies, and make recommendations on which applications to keep, abandon or change, based upon each company's individual business strategy. As part of the management system, IBM Global Services advises customers about the "pay as you go" model, which allows companies to pay for updating applications with the money saved from lower maintenance costs.

- Legacy Transformation Services include several modular services that can be used individually or in combination to renovate, integrate, migrate and place applications on the Web, which enables companies to share business data within their organization, with suppliers and with customers. IBM technical professionals make the changes to an organization's legacy applications, which helps customers to realize costs savings, while positioning them to take advantage of new initiatives, such as e-business on demand software applications.

IBM is also offering new WebSphere software to help developers bridge the gap between old and new applications, which is also vital for businesses that seek to move towards an on demand computing environment where they can respond, in real-time, to any internal or external change.

New WebSphere development tools can:

- Speed up development by simplifying the skills needed to create Web services-based applications for environments that include IBM's zSeries mainframes. Developers can rapidly create applications that integrate traditional software including CICS, invented in 1968, IBM's transaction processing software used by customers to handle billions of transactions per day. The new tools support major Web services standards and the broadest set of skills to help developers build new Web services-based workflow applications for mainframes.

- Transform "green screen" applications running on IBM zSeries servers to a point-and-click interface delivered to Web browsers -- complete with graphics, hot links and drop-down menus. Mainframe developers can cut development time from weeks to hours by using use a template to 'Web-enable' thousands of green screens in a single keystroke, rather than manually convert them one-by-one.

- Make it easier and faster to create and run sophisticated e-business applications for IBM's iSeries server, requiring little Java, Web, or Web-services programming skills. A new visual builder helps construct Web applications that conform to the latest open standards. Simple software "wizards" make it easy to generate e-business applications that reuse existing programs, data, and programming skills.

Contact: <http://www.ibm.com>.

IBM Enhances Tivoli Management Software with Autonomic Technologies

IBM on April 9 announced new Tivoli systems management software, including new self-managing autonomic capabilities and integrations with third-party products, designed to help companies link IT more closely with business requirements.

The new Tivoli Monitoring Engine software is designed to reduce the complexity of integrated, heterogeneous environments and enhance end-user experience.

Using the software, developers and ISVs can embed autonomic capabilities into their applications, reducing development time and costs.

The software contains self-healing technology that allows systems to automatically recover from critical situations. It is designed to detect resource outages and potential problems before they impact system performance or end-user experience.

IBM said it is making a software devel-

oper kit (SDK) available to ISVs so they can begin using the Autonomic Monitoring Engine today to link their products to Tivoli Monitoring and other autonomic IBM products later this year.

According to Big Blue, several ISVs are already exploring ways to leverage the Tivoli Autonomic Monitoring Engine in their applications, including Alexander LAN, Inc., maker of software for the prevention and resolution of system crashes; Emageon, provider of enterprise solutions for medical imaging; retail software provider Retek; and TripWire, a provider of data integrity assurance solutions.

The Autonomic Computing Engine is part of IBM's newly announced Autonomic Computing Blueprint for assisting customers as they begin to build autonomic computing systems.

The blueprint provides a method for assembling technologies from diverse suppliers and facilitates an open process for automating the management of complex information systems.

For example, using IBM's new Tivoli Autonomic Monitoring Engine software, an ISV could design an application for an online retailer that automatically allocates resources based on user priority.

This would ensure that whenever resources are down or being heavily taxed, the needs of premier users would still be met, while holding non-premier users in queue until system resources are regained.

Automating Identity Management

IBM also added to the growing ecosystem of partners that supports IBM's identity management software.

Through broad integration with third-party hardware and software providers, IBM is making it easier to extend identity management to reach more users that interact with organizations.

IBM is delivering new support in Tivoli Access Manager for nine third-party e-business products, enhancing the end-user experience and bolstering security.

Through out-of-the-box integration, customers have the ability to rapidly deploy access management and single sign-on into existing sys-

tems, helping reduce custom integration and development costs.

New integrations include: Blockade's ES-Connect, Cash-U's Pecan Entertainment Platform, Kintana software, nCipher's nForce hardware security module, OpenConnect Systems' WebConnect with Single Sign-On, RockSteady's RockSteadyNSA, Sena Systems' PortalPass, Verity K2 Enterprise and WinCom Systems' Platform.

Additional Product Enhancements and Integrations

- New support in Tivoli Configuration Manager for the industry's two leading vendors of application installation software. By integrating with Wise Solutions' Package Studio and Install-Shield's AdminStudio, IBM is able to automate the process of installing and distributing software across an enterprise for virtually any commercial application using Tivoli Configuration Manager.
- Tivoli Configuration Manager for ATMs, which reduces support costs and improves ATM service by centralizing and simplifying maintenance upgrades and application monitoring. The product monitors all components of the environment, including those specific to ATMs.
- An agreement with NCR Corporation, the world's leading manufacturer of ATMs, to integrate its APTRA software products with Tivoli Configuration Manager for ATMs, enabling remote software distribution and inventory management of all the software and hardware running on a self-service network.
- Tivoli Enterprise Console 3.9, which includes a new Web console that provides remote access anywhere, and requires no endpoint installation or maintenance. The product also includes auto-discovery and problem diagnosis to increase operator responsiveness and efficiency, and pre-configured rules that provide best practices event management out of the box.
- Tivoli Remote Control 3.8, which provides support across firewalls, includes enhanced central logging and full datastream encryption.
- Additional self-managing capabilities for three

of Tivoli's storage management products: Tivoli Storage Area Network Manager v1.2, Tivoli Storage Resource Manager v1.2, and Tivoli Storage Manager 5.2.

Contact: <http://www.ibm.com/tivoli>.

IBM Unveils Technologies, Resources for Developers

At its annual developer conference, IBM on April 10 announced new technologies, resources and support programs to help developers build business solutions based on IBM's open infrastructure software.

IBM showcased new technologies, tools, educational and marketing programs for developers from small to medium businesses (SMBs) as well as large enterprises. In addition, IBM also unveiled new initiatives to select and qualified independent software vendors (ISVs) to help them build business applications for the mid-market running on IBM's infrastructure software.

The new developer initiatives and resources are designed to help ISVs and corporate developers deliver e-business on demand solutions that integrate companies' various business operations -- such as those for suppliers, customers and employees. Such "horizontal" integration of business "silos" will better enable businesses to respond faster and with greater flexibility to any customer demand, new market opportunity or external threat.

The company strengthened its commitment to the \$300 billion small and medium-size (SMB) market and for thousands of independent software firms worldwide by extending its recently announced SMB Advantage initiative via the introduction of the ISV Advantage Initiative.

This new component will offer go-to-market agreements to developers that specialize in serving SMB customers. Inspired by the success of IBM's strategic alliance initiative, ISV Advantage is designed to use IBM's sales and marketing reach and growing portfolio of IBM Express middleware and IBM eServer systems to

help developers penetrate niche market segments with enterprise-proven support. The first partners to join the initiative are Intuit Eclipse, daly.commerce and VAI.

IBM introduced Integrated Platform Express, a new Linux offering specifically priced and designed for SMBs. The new bundled solution, built on IBM's Express software -- WebSphere Express and DB2 Express -- along with an IBM Intel-based server, eServer xSeries, allows software vendors and business partners to quickly deploy Linux-based solutions for the SMB space. By using this offering, developers can respond to market demand faster because the initial integration of the hardware and software is completed out-of-the-box.

In addition, IBM previewed an open standards-based Express Runtime environment to speed development of SMB applications and solutions by business partners, and released a new alphaWorks licensing program which allow SMBs to purchase emerging technologies from IBM's Research division for under \$100, including two new Java technologies.

IBM also introduced new Web services initiatives.

For example, IBM Global Services debuted an Enterprise Modernization Initiative that will give developers new tools to enable legacy applications to be transformed into Web services.

IBM released a new Speed-Start Web Services program to help speed adoption of Web services in the enterprise.

Speed-Start Web Services, available on developerWorks, helps IT managers and developers create and deploy Web services using open standards and IBM software.

In addition, IBM announced the first WebSphere Studio development tool for BEA's WebLogic.

With the free plug-in available on IBM's developerWorks site, developers can use WebSphere Studio to test and deploy J2EE applications for BEA WebLogic in addition to WebSphere.

The move reflects IBM's open approach and its commitment to helping customers with heterogeneous environments.

Autonomic Computing

IBM also said it simplified the system design process by introducing the industry's first blueprint to assist customers in the creation of autonomic computing systems. The company plans to deliver the first in a series of open technologies, based on this blueprint, to help make IT systems more self-managing. IBM is making the blueprint available free of charge and without royalty, and is working with third-party partners, customers and open standards committees to help drive the architecture's continued evolution.

Contact: <http://www.ibm.com/partnerworld/developer>

IBM, Intuit Eclipse Target Small Business

IBM and Intuit Eclipse, a provider of business management software solutions for wholesale distributors, on April 10 announced a marketing

and technology agreement designed to help small and medium-size business customers better manage critical business components, including order processing, inventory control, accounting, purchasing and customer service.

Intuit Eclipse will optimize its Distribution Management Solutions (DMS) application suite for IBM's WebSphere Application Server Express, which will more tightly integrate the two companies' technologies. Intuit Eclipse will continue to deliver DMS solutions with IBM hardware and middleware.

IBM will also be promoting Intuit Eclipse's product as part of a leading e-business SMB Solution for Enterprise Resource Planning (ERP), Supply Chain Management (SCM) and Customer Relationship Management (CRM) Extensions for Wholesale Distribution in the following sub-segments:

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