HP has $8.9B loss on expected charge for EDS flop (Update)

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Hewlett-Packard on Wednesday announced a quarterly loss of $8.9 billion as the US computer giant was forced to write down the value of some assets and take hefty reorganizational charges.

(AP) — Hewlett-Packard absorbed the largest quarterly loss in its history as the Silicon Valley pioneer owned up to past mistakes that have left it scrambling to adapt to a shifting technology market.

The loss of $8.9 billion announced Wednesday didn't come as a surprise. HP telegraphed the news earlier this month when it disclosed plans to take an $8 billion charge to reflect the shrinking value of Electronic Data Systems, a technology consulting service it bought for $13 billion in 2008.

It represented another mortifying setback for a 73-year-old company that once had the reputation for being a fountain of innovation —and a great place to work, to boot. Now, HP is struggling to reverse perceptions that it's becoming a technological dinosaur bogged down in bureaucracy as it slashes its work force to help offset a downturn in revenue.

The company is counting on Meg Whitman, its third CEO in slightly more than two years, to be its savior. While stressing she believes HP can still be great again, Whitman made it clear Wednesday that it will be a long slog.

"Make no mistake about it: We are still in the early stages of a turnaround," Whitman told analysts during a conference call.

That has become Whitman's mantra since HP hired her as CEO 11 months ago. Later in the call, Whitman acknowledged "the very serious executive issues" facing HP as it tries to catch up to its rivals and cope with a weakening economy, particularly in Europe.

Whitman, who became one of the world's best-known chief executives during a decade-long stint running eBay Inc., has been shaking things up at HP by reorganizing divisions, ushering in new managers and slashing costs through the job cuts.

As Whitman's remarks underscored the enormity of the challenge facing HP, more investors bailed out of the company's stock. HP shares sank 94 cents, or nearly 5 percent, to $18.26 in Wednesday's after-hours trading, reversing earlier gains after the latest quarterly results were released. The shares have lost more than half their value in the past two years, a factor that contributed the EDS charge during the three-month period ending in July.

HP also had to absorb charges to cover severance payments for the first wave of the 27,000 workers it is jettisoning to dramatically reduce its expenses as its revenue shrivels. The company, which is based in Palo Alto, California, now expects to drop 11,500 employees from its payroll by the end of October, up from its previous target of 9,000. Another 15,500 employees will be let go through October 2014.

The cutbacks are driven by the rising popularity of mobile phones and tablet computers — devices that are reducing demand for personal computers. That's bad news for HP, which is the world's largest maker of PCs and printers.

To cope with the upheaval, HP has been expanding into technology consulting, computer software, data storage and high-end servers made for companies and government agencies. All those specialties are more profitable than the fiercely competitive PC market, but HP hasn't been evolving rapidly enough to avoid an alarming deterioration in its financial performance.

Like several other major technology companies, HP has also been hurt by the recent economic turmoil in Europe. The uncertainty caused by unwieldy government debt in Europe has curbed spending on the continent.

If HP's slump worsens, management warned it may have to register additional charges in the current quarter to account for trouble in other acquisitions. Without citing specifics, HP executives pointed to the company's software operations as one area that could be lumped with a major accounting charge. That division includes Autonomy, a business software service that HP bought for $11 billion last year.

The fiscal third-quarter loss Wednesday translates to $4.49 per share for a period covering the three months ending in July. The company earned $1.9 billion, or 93 cents per share, at the same time last year.

HP's revenue sank 5 percent from last year to $29.7 billion. That was about $500 million below the projections of analysts polled by FactSet. It marked HP's fourth consecutive year-over-year quarterly decrease in revenue.

PC sales during the latest quarter fell by about 10 percent from the same time last year, Whitman said. She traced the decline to fierce price competition, a growing preference for tablet computers and smartphones, and postponed purchases among buyers waiting for the release of a new line of machines running Windows 8, a radical overhaul of Microsoft Corp.'s operating system set for release October 26.

Whitman's clampdown on expenses also appeared to be delivering savings more quickly than Wall Street anticipated. If not for the company's various charges, HP said it would have earned $1 per share. That figure was 2 cents per share above analyst estimates.