HP To Report Its Biggest Loss

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SAN FRANCISCO (AP) — Facing up to its past mistakes is expected to saddle Hewlett-Packard Co. with a quarterly loss of nearly $9 billion, the largest setback in the Silicon Valley pioneer's history.

WHAT TO WATCH FOR: The sobering results, due out after the stock market closes Wednesday, won't be a surprise. The company, which is based in Palo Alto, Calif., telegraphed the loss earlier this month when it disclosed it will absorb massive charges to account for an ill-advised acquisition and the initial costs of a streamlining program that will jettison 27,000 jobs to help boost HP's sagging profits.

Most of the damage stems from HP's $13 billion acquisition of technology consulting service Electronic Data Systems in 2008. The deal hasn't panned out the way that HP envisioned, forcing the company to write down the value of its Enterprise Services division.

HP also will record a charge of $1.5 billion to $1.7 billion to cover the severance payments to workers being pruned from the company payroll. The cuts, which will eliminate about 8 percent of HP's workforce, are being spread over the next two years.

Add it all up, and it's expected to produce a loss of $4.31 to $4.49 per share during the three months ending in July. That translates into a loss of $8.5 billion to $8.9 billion, the worst quarterly showing since HP started out in a garage in 1939.

Investors aren't likely to dwell on the loss because they are focusing on HP CEO Meg Whitman's plans to turn around the company. After nearly a year on the job, Whitman still hasn't been able to convince Wall Street she has come up with the right formula. HP's stock has fallen by about 14 percent under Whitman's leadership so far. Meanwhile, the bellwether Dow Jones industrial average that includes HP as a component has climbed by 23 percent during the same period.

Whitman's pledge to trim $3 billion to $3.5 billion annual expenses during the next two years already appears to be paying off. The cost cutting is the main reason that HP fared slightly better during the latest quarter than management had anticipated. In its sneak peek at the quarter earlier this month, HP said its adjusted earnings — a figure that excludes the charges — would be $1 per share. That's better than the 94 cents to 97 cents per share that the company had forecast in May. The adjusted results are still are still a drop-off from the same time last year.

HP's stock may languish until the company is able to revive its revenue growth, something that analysts doubt happened in the latest quarter. The company didn't mention its revenue earlier this month when it released its preliminary numbers for the quarter.

Like other personal computer makers, HP is having trouble selling more machines as more consumers and businesses embrace tablet computers such as Apple Inc.'s iPad. Other prospective PCs are believed to be holding off their purchases until Microsoft's latest version of the Windows operating system hits the market in late October.

The mounting interest in Windows 8, Microsoft's biggest overhaul of the operating system in at least 17 years, means HP could be headed for another sluggish performance in the current quarter ending in October.

An analyst conference call following Wednesday's earnings release will give Whitman the opportunity to discuss the challenges facing the company and share her thoughts about Microsoft's decision to compete against HP and PC makers that license Windows by selling its own tablet computer.

WHY IT MATTERS: HP is the world's maker of PCs and computer printers, as well as one of the technology industry's biggest employers. Before the job cuts started in May, HP had about 350,000 workers on its payroll.

WHAT'S EXPECTED: After subtracting HP's huge accounting charges, analysts polled by FactSet predict the company will earn 98 cents per share on revenue of $30.19 billion.

LAST YEAR'S QUARTER: HP earned $1.9 billion, or 93 cents per share, on revenue of $31.2 billion. If not for certain accounting charges, HP would have earned $1.10 per share last year.