

HP profit jumps on cost cuts, new market expansion

SAN FRANCISCO (AP) — Hewlett-Packard Co.'s cost-cutting and push into new markets is helping soften the blow from weakness in the company's mainstay businesses.

HP on Monday reported big revenue declines in four of its main divisions — PCs, servers, software and printers — in the latest quarter. A bright spot was technology services, a division HP beefed up last year with the \$13.9 billion acquisition of Electronic Data Systems and which posted better profits. HP is eliminating 24,600 jobs as part of that takeover.

HP's numbers reinforce trends other companies have reported: Consumers and China are showing stronger demand, while businesses remain hesitant. Other tech heavyweights such as Google Inc., IBM, Intel Corp. and Microsoft Corp. have reported better conditions in some of their businesses.

HP said after the market closed that its earnings jumped 14 percent to \$2.4 billion, or 99 cents per share, in the three months ended Oct. 31. That compares with \$2.1 billion, or 84 cents per share, in the year-ago period.

Excluding one-time items, net income totaled \$1.14 per share. Sales fell 8 percent to \$30.8 billion, or dropped 5 percent if currency fluctuations are stripped out. By both metrics, the results exceeded the expectations of analysts polled by Thomson Reuters.

HP also added \$8 billion to its stock buyback program, boosting the total amount available to \$12 billion.

HP's latest moves represent a shift away from the company's dependence on the PC market, which is vulnerable to swings in consumer and corporate spending, as well as to fluctuations in prices for components like memory chips and LCD screens. On the other hand, companies will pay for things like outsourcing services even in lean times, because they save money in the long run. IBM has ridden that model to better profits in the recession, despite slumping sales.

The PC division supplies a third of HP's revenue but just 15 percent of the company's operating profit, numbers that are getting slimmer as PC makers aggressively cut prices to court cash-strapped consumers and people snap up little laptops called "netbooks" that sell for just a few hundred dollars.

In the latest period, HP's PC shipments rose 8 percent, but revenue in the PC division fell 12 percent. The trend has hurt other PC makers as well. Last week, Dell Inc., the No. 3 PC maker, disappointed investors by reporting a 54 percent drop in net income in its latest quarter.

Still, HP's results support Gartner Inc.'s report Monday that the third quarter was "much stronger" than expected for PC sales. Gartner is now predicting that PC shipments will rise 2.8 percent this year, up from a prior forecast for a 2 percent decline.

HP, which is buying 3Com Corp. for \$2.7 billion to expand computer networking, announced its preliminary results on Nov. 11, so investors knew what was coming. Still, some apparently expected even better.

HP shares dipped 32 cents to \$50.70 in extended trading, having closed up 2 percent at \$51.02 ahead of the earnings report.

Hedge funds may get \$11 billion frozen at Lehman

NEW YORK (Reuters) — Lehman Brothers International (Europe), where more than \$35 billion of hedge fund assets have been frozen since the bank's collapse last September, could return about \$11 billion to fund managers by March if enough firms approve a new plan.

PricewaterhouseCoopers (PWC.UK), administrators for bankrupt Lehman's London-based unit, announced on Monday a proposal that would let hedge funds recover their assets held in custody by Lehman Brothers International (Europe), or LBIE.

The scheme requires approval by 90 percent of Lehman's clients.

"This agreement has been negotiated over the last six months and will now allow us to return a further \$11 billion or so of trust assets to their rightful owners," Steven Pearson, joint administrator for LBIE and a PricewaterhouseCoopers partner, said in a statement.

Hundreds of hedge funds were left hanging



Home sales at 2-1/2 year high

WASHINGTON (Reuters) — Sales of previously owned U.S. homes jumped last month to their highest level in more than 2-1/2 years, but a fall in an economic gauge was a reminder that recovery from recession would be patchy.

Sales of existing home sales surged a record 10.1 percent month-over-month in October, the National Association of Realtors (NAR) said on Monday, as buyers rushed to take advantage of a popular tax credit for first-time buyers that had been scheduled to end this month.

"Although the data are biased higher from policy measures, we do believe this sharp gain signals pent-up demand and a willingness to purchase homes, which is a good sign for the sustainability of the housing recovery," said Michelle Meyer, an economist at Barclays Capital in New York.

The housing numbers, which easily topped market expectations, helped drive up stocks, but a decline in the Federal Reserve Bank of Chicago's index of national economic activity offered a somewhat more sobering picture.

The White House said on Monday it was reviewing options to spur economic activity and job creation, but stressed any action would be taken in the context of the fiscal challenges facing the country.

Sales of existing home sales surged in October to an annual rate of 6.10 million units, the NAR reported, beating market expectations for a 5.70 million-unit pace and above September's 5.54 million-unit rate.

The housing market is slowly mending after a three-year decline, which helped tip the U.S. economy into its worst recession in seven decades.

U.S. stocks snapped a three-day losing streak on the housing data, which eclipsed the report from the Federal Reserve Bank of Chicago showing its National Activity Index, a measure of the economy, slid to -1.08 from -1.01 in September.

The blue chip Dow Jones industrial average index hit a 13-month high before closing up 1.29 percent.

The Chicago Fed's National Activity Index's three-month moving average decreased to -0.91 in October from -0.67 in September, declining for the first time in 2009. According to the Chicago Fed, a move below -0.70 in the three-month moving average following a period of economic expansion indicates an increasing likelihood a recession has begun.

This development will likely feed into fears the economic

recovery that started in the third quarter may lose some momentum once government stimulus wanes, given the high unemployment that is crimping consumer spending.

Analysts are cautiously hoping a sustained housing market recovery will help improve the psychology of households, which has been shaken by an unemployment rate of 10.2 percent, the highest in 26-1/2 years.

The NAR said its data on Monday, which showed broad-based gains in the largest segment of the housing market, was proof that the decline in purchases of existing homes had bottomed.

"Home prices are almost there. We are seeing less of a decline in house values," said Lawrence Yun, NAR's chief economist. He said the Realtors group expected strong sales for November, related to the federal tax credit.

Analysts, however, cautioned of some slowdown in the sales pace, citing a drop to 12-year lows in demand for home loans during the week ended November 13.

Distressed transactions accounted for 30 percent of sales last month and continued to weigh on home prices. First-time buyers made up a third of sales in October. A separate survey based on actual home sales showed first-time home owners accounted for 47 percent of sales last month.

The national median home price fell 7.1 percent from October last year, the smallest decline in over a year, to \$173,100. Homes in foreclosure typically sell for 15 to 20 percent less than other homes.

Housing is healing and construction activity added to growth in the third quarter for the first time since 2005.

Recovery is being supported by the \$8,000 tax credit for first-time buyers, low mortgage rates and falling house prices. The government this month extended the home buyers' incentive into next year and added a \$6,500 credit for home owners buying a new residence. It had been due to expire on November 30.

Purchases by the U.S. Federal Reserve of mortgage-related assets have helped to push home loans down, boosting the affordability of house and aiding the sector's recovery.

On Sunday, the president of the St. Louis Federal Reserve Bank, James Bullard, said the U.S. central bank should keep its mortgage-related asset purchase program beyond a scheduled expiration in March.



Freddie Mac: Taylor, Bean loss may be significant

NEW YORK (AP) — Mortgage finance company Freddie Mac said Monday it could lose \$500 million or more as a result of the bankruptcy protection filing of Taylor, Bean & Whitaker Mortgage Corp.

In a regulatory filing with the Securities and Exchange Commission, government-backed Freddie Mac said Taylor, Bean received and processed some of Freddie Mac's borrower funds through Colonial Bank, which was shut down by regulators in August.

Freddie said it filed a proof of claim for about \$595 million against Colonial Bank on Nov. 18. That money includes payoff funds, borrower payments of mortgage principal and interest, as well as taxes and insurance funds received by Taylor, Bean on loans.

Freddie Mac said it's unable to estimate its total losses related to the bankruptcy filing, but noted that the amount "could be significant."

Taylor, Bean & Whitaker, which managed a mortgage



servicing portfolio of about \$80 billion, filed for Chapter 11 bankruptcy protection in August after moves by regulators led to the shutdown what had been one of the nation's biggest independent mortgage bankers.

The Federal Housing Administration had suspended the company's authority to issue FHA-insured loans, and then both Freddie Mac and Ginnie Mae suspended Taylor, Bean as an issuer of mortgage-backed

securities — mortgages bundled and sold off to investors. Taylor, Bean appealed the Freddie Mac suspension, but said it had no choice but to file for bankruptcy protection as it could no longer operate its business normally.

It has said it believes regulators' moves were related to the investigation into the failure of Colonial Bank, which for years had been Taylor, Bean's main bank. In mid-August, regulators shut down Colonial Bank's parent, Colonial BancGroup Inc., the biggest bank to fail this year with about \$25 billion in assets.

last September when New York-based Lehman filed for bankruptcy. More than \$35 billion of assets that they entrusted to Lehman's London unit have been frozen as part of the receivership process.

The proposal, which will be sent to fund managers Tuesday, would return assets to funds and close out positions without the need to post further collateral. LBIE's creditors' committee supports the plan unanimously.

Clients have until December 29 to vote on the plan. PwC hopes to set a deadline for filing claims at the end of February and return assets before the end of March.

The claim resolution agreement follows an earlier attempt by PwC to speed up returns of hedge fund assets that was struck down by British courts. PwC also said the latest plan will address LBIE assets held by Lehman's U.S. affiliate, Lehman Brothers Inc.

PwC has warned that without a court-approved or client-approved plan, it could take many years and even a decade before claims can be reviewed and assets returned to their owners.

So far \$13.3 billion of assets have been returned, while \$11.4 billion of securities and cash have been recovered from various third parties and are available for return.

LBIE is also trying to claim \$7.2 billion of cash and assets held by Lehman Brothers affiliates in the United States and Asia.

GM seeks assistance from Europe for Opel

BERLIN (The NYT) — As executives of General Motors met Monday with European officials to ask for financial help in overhauling its struggling auto operations, Germany reopened a bitter public debate over state aid and job protections that has sharply divided its government.

After talks in Brussels on Monday with European countries where G.M. has plants, Nick Reilly, the interim chief executive of the automaker's European operations, said the company was "looking for support of any government that feels willing to be able to provide us some financing support in the medium term."

Last week Mr. Reilly outlined a plan to cut 20 to 25 percent of GM's capacity for making cars in Europe, a move that would most likely eliminate thousands of jobs. The European unit, made up of Opel and Vauxhall, employs 50,000 people.

Representatives of Belgium, Britain, Germany, Poland, Spain and Sweden — all countries with GM plants — said after the meeting that they had agreed not to negotiate with the company over aid until a meeting Dec. 4, when it will have reviewed GM's revamping plan.

G.M. decided in September to keep its European operations rather than sell them as part of its overhaul.

This year, the German government offered 4.5 billion euros (\$6.7 billion) in a bridge loan and loan guarantees if GM sold the majority of its European business to a consortium led by the Canadian car parts maker Magna International and the Russian lender Sberbank.

At the time, it was reported that Germany favored the Magna consortium's bid over a competing offer led by a United States private equity firm because Magna had promised to protect German jobs. That, in turn, led other countries where GM has plants to complain that Germany was protecting its own interests at the expense of workers in other countries.

Before the meeting Monday, the German economics minister, Rainer Brüderle, warned that any decision to grant subsidies to GM in Europe might breach European Union rules over state aid. "We do not see that the German taxpayer is prepared to be the rich uncle," Mr. Brüderle said on ARD public television in Germany.

The deputy economics minister in Germany, Jochen Homann, said Monday, "We are not going to participate in a race to see who can give the most state help." Mr. Brüderle is a leading member of the pro-business Free Democrats, which this month became the new junior partner in Chancellor Angela Merkel's center-right coalition. The Free Democrats were staunchly against the Magna deal, which Mrs. Merkel had publicly supported.

At the time, Mr. Brüderle, whose party was in the opposition, said the German taxpayer should not support the Magna-Sberbank deal because there was no clear strategy or revamping plan.

IG Metall, the influential German union that represents autoworkers, criticized Mr. Brüderle on Monday for ruling out state aid. "If there is a plan, then the goal should be to prevent jobs losses," said Armin Schild, district leader of the union in Frankfurt and a member of Opel's supervisory board.

Union representatives said they hoped the future of the company's European work force would become clearer when they met Wednesday with Mr. Reilly to discuss revamping plans.

"It is of crucial importance to us that there is a complete financing until 2014," said Lothar Sorger, deputy labor leader of Opel at its Kaiserslautern plant in Germany. "We do not want at all to find ourselves in the situation that they cancel once again" investments in models and new development work.

European Union commissioners who also participated in the meeting Monday said in a statement that the countries had agreed that any financial support to GM would not be linked to where the company made commitments on job cuts. They also said any state aid had to facilitate efforts by carmakers to adapt production to declining demand.