

DELL INC.

Dell warns of lower profit

Stock drops quickly in after-hours trading.

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Dell Inc.'s stock dropped sharply late Monday after the company warned that its first-quarter profit will be less than expected and that revenue will be at the low end of previous forecasts.

It's the latest sign that the company has its hands full against increasingly tough competition in the personal computer business.

Dell said it now expects to report earnings of 33 cents per share, compared with earlier forecasts of 36 cents to 38 cents per share. Wall Street analysts were forecasting 38 cents per share.

Revenue will be about \$14.2 billion, compared with an earlier forecast of \$14.2 billion to \$14.6 billion. Analysts were expecting \$14.5 billion.

Dell shares fell 6 percent, or \$1.59 per share, in after-hours trading following the announcement. In regular trading, the stock had risen 75 cents per share, its biggest gain since Feb. 8.

The company's revised forecast puts revenue growth at just 6 percent from a year ago. And it would be the first time in four years that Dell has recorded single-digit revenue growth.

The revised forecast comes a few weeks after research firms reported that Dell lost market share in the first quarter, and investors began questioning whether it was getting undercut on price by rivals such as Hewlett-Packard Co.

Dell's shipments grew 10.2 percent worldwide from a year ago, according to IDC, and H-P's shipments rose 22 percent. It marked the first time Dell's shipments grew slower than the industry average, currently 13.1 percent, since at least 1989.

Both Dell and H-P operate on quarters that trail the traditional calendar by about a month, and some

analysts cautioned that Dell might go on the offensive, slashing prices to regain share.

When asked about Dell's recent struggles, Chairman Michael Dell told the Austin American-Statesman on April 25: "We know exactly what is going on; we know exactly what to do about it, and you can be sure we're doing it."

In changing its forecast Monday, the company said in a statement: "The shortfall in earnings versus previous guidance was driven primarily by pricing decisions in the second half of the quarter that the company expects will accelerate revenue growth in the future."

The details won't be known until next week, when H-P reports earnings Tuesday, followed by Dell on Thursday.

Bill Shope, an analyst with JP Morgan Securities, upgraded H-P shares Monday morning, saying he expects it to top Wall Street's revenue and earnings targets.

H-P shares, which fell 8 cents during regular trading Monday, fell another 84 cents, or 2.5 percent, to \$32.95 per share in the after-hours market.

Companies such as H-P have increased pressure on Dell, which has struggled with consumer PC sales since last year.

Other Dell divisions "did relatively well," said analyst Roger Kay of Endpoint Technologies Associates. "They can't escape the problems of that (consumer) segment, and it kind of gets all over them."

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