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Cisco to cut costs and jobs as profits stall

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In this May 9, 2011 photo, the exterior of Cisco headquarters is shown in San Jose, Calif. Cisoc Systems Inc. reports quarterly financial results Wednesday, May 11, after the market close.(AP Photo/Paul Sakuma)

(AP) -- Cisco Systems Inc., the world's largest maker of computer networking gear, said Wednesday that it's set to eliminate thousands of jobs as part of cost-cutting moves to get profits growing again.

Cisco's sales rebounded from the recession, but then started stalling in the middle of last year. In the past few months, CEO John Chambers has signaled that he's accepting long-standing criticism that the company is trying to compete in too many markets. He has vowed to radically simplify the company.

The company is still troubled: On Wednesday, it gave a financial forecast for the current quarter that was well below analyst expectations.

Chambers now wants to cut annual expenses by $1 billion, or about 6 percent. He didn't say how many jobs he's aiming to eliminate, mainly through an early retirement program. If the percentage is similar to the cut in expenses, it could amount to 4,000 to 5,000 of the company's 73,400 employees.

Cisco last embarked on a belt-tightening program two years ago in the depth of the recession. The goal then was also to shave $1 billion of annual expenses, which it did by cutting travel, freezing hiring and instituting a similar early retirement program. It lost 2,000 employees before it started hiring again.

This time, the cost cuts are meant to address long-term challenges, not a short dip in the economy. The company may also sell or close underperforming units, Chambers said, much like a month ago when it announced it was killing the Flip Video camcorder, a product line it bought just two years earlier. The move was part of a partial pullback from the consumer market, which Cisco has tried to court for years.

Another problem area is network switches, Cisco's largest single product segment, where competition is quickly driving down prices. Cisco's revenue from the segment fell 9 percent in the quarter. Chambers said the company is introducing new products quickly to fight back.

Cisco has a long history as a growth company, befitting its position as the leading provider of the equipment that powers the Internet. That also means expectations for it are high, and Chambers has held on to a long-term goal of 12 percent to 17 percent annual revenue growth through the recession and its aftermath. On Wednesday, he said that goal is "not reflective of the environment," and he'll provide a new target in September.

"We know what we have to do. We have a clear game plan," Chambers told analysts on a conference call. "We've had to make big changes before, and each time we've made these changes, we've emerged even stronger."

For the fiscal third quarter, which ended April 30, Cisco said net income declined nearly 18 percent to $1.8 billion, or 33 cents per share. That compared with earnings of $2.2 billion, or 37 cents per share, a year ago.

Excluding the cost of stock-based compensation and some amortization and asset impairments, earnings were 42 cents per share, unchanged from last year. Analysts polled by FactSet had expected earnings of 37 cents per share on that basis.

Sales rose 5 percent to $10.9 billion, matching analyst expectations.

This year's third quarter was one week shorter than last year's.

For the current quarter, Cisco expects earnings of 37 cents to 39 cents per share, while analysts were expecting 42 cents per share. It expects revenue to be unchanged from last year or up to 2 percent higher, while analysts were looking for a 7 percent increase.

Cisco expects the early retirement program to result in pretax charges of $500 million to $1.1 billion in the quarter.

Cisco shares fell 53 cents, or 2.9 percent, to $17.25 in extended trading. The stock lost 1 cent to close at $17.78 in the regular session.