Cisco's sobering forecast overshadows 3Q earnings

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Exterior view of Cisco headquarters in Santa Clara, Calif., Wednesday, May 9, 2012. Cisco Systems Inc.'s quarterly earnings surged 20 percent in the latest sign that a recently completed overhaul is paying off for the world's largest maker of computer-networking equipment. (AP Photo/Paul Sakuma)

(AP) -- Cisco raised the specter of a sharp slowdown in technology spending late Wednesday, rattling investors already fretting about the economy's fragile condition.

The red flag raised by the world's largest maker of computer-networking equipment overshadowed a solid showing in the most recent quarter.

Investors instead fixated on a sobering forecast for the current quarter that Cisco Systems Inc. CEO John Chambers traced to skittish customers who are waiting longer to close deals and spending less money because of growing uncertainty about the economy, particularly in Europe and India.

"We are still in an uncertain environment economically," Chambers told analysts in a conference call.

The cautionary remarks sparked worries that Cisco might be about to fall into a slump similar to the one that it just pulled out of late last year after trimming about $1 billion in its annual expenses.

Those fears caused Cisco's shares to plunge $1.58, or more than 8 percent, to $17.20 in extended trading Wednesday. The sell-off doesn't bode well for the Dow Jones industrial average Thursday, as Cisco is one of the 30 stocks in the closely watched market barometer.

As a maker of big-ticket technology equipment with an international reach, Cisco is considered to be a good gauge of the swings in the global economy.

Cisco underscored its concerns about the economy by predicting its revenue for the current quarter, which runs May to July, will increase by just 2 percent to 5 percent from the same time last year. The average estimate among analysts surveyed by FactSet had called for a 7 percent increase in revenue.

The company, which is based in San Jose, Calif., expects its adjusted earnings for the period to range from 44 cents to 46 cents per share. Analysts had predicted adjusted earnings of 49 cents per share.

The prospect of weak revenue covers Cisco's fiscal fourth quarter - typically the company's busiest period. Although management didn't look beyond the current quarter, investors are likely wondering whether the business climate for Cisco will be even worse in the late summer and early fall.

Chambers sought to reassure analysts telling them, "We will muddle through this with a little bit of bumps on the road."

Cisco earned $2.2 billion, or 40 cents per share, during its fiscal third quarter, which ended April 28. That compared with net income of $1.8 billion, or 33 cents per share, at the same time last year.

If not for certain accounting items unrelated to its ongoing business, Cisco would have earned 48 cents per share. On that basis, Cisco's earnings were a penny above the average estimate among analysts polled by FactSet.

Revenue rose 7 percent from last year to $11.6 billion, matching analyst projections.

Cisco's showing contrasted with revenue downturns in the most recent quarters at two of its major rivals, Juniper Networks Inc. and Alcatel-Lucent. The earnings growth also provided the latest sign that Cisco's recently completed overhaul is paying off. In that reorganization, Chambers laid off workers and dumped operations that he believed were distracting the company from its main business of selling computer-networking equipment.

But, Chambers stressed Wednesday, Cisco may be facing economic challenges beyond its control.