

MARKET CALLS

Lifeline Cisco

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It may no longer be a "wealth creation machine," but Cisco is going to keep Silicon Valley alive for at least another quarter.

It would be too great a break from tradition for me to let another **Cisco earnings report** pass without at least a brief comment -- even though it seems that, during this earnings season, earnings are the least important thing on the market's mind.

Yesterday's Cisco report was unremarkable -- like everyone else this earnings season they beat by two pennies. And like the rest of the technology sector, the year-on-year comparables are starting to look good for the first time. It's the first tangible evidence of any sign of real earnings stabilization in the tech sector for six months. Maybe this time it will stick

Perhaps the best surprise in Cisco's report was CEO **John Chambers'** histrionics with respect to the rumors that he would not sign the new SEC-mandated certification of financial statements. He strongly stated that "of course" he would -- and this now seems to be falling into a market-wide pattern of certification without restatement. The mood two weeks ago that believed that the entire market was a Potemkin Village of fake earnings will probably now dissipate into the August 14 deadline.

Cisco also said all the right things about market share gains. Like **Dell**, they are proving quite adept at the down-cycle version of the "gorilla game" -- using economy-wide difficulties to consolidate their lead over competitors. When this thing finally turns around, Cisco may be the last man standing.

So even Cisco's lackluster guidance should probably be understood as good news. Here in Silicon Valley, Cisco has become a lifeline. While hundreds of smaller networking firms have become moribund, Cisco has almost single-handedly kept the supply-chain alive. I've heard hear from executives of semiconductor firms here statements such as "If it weren't for Cisco, I'd be out of business. No one else is buying anything."

Yes, it's a far, far cry from what people around here said about Cisco at the top. A Valley executive told me in March 2000, when Cisco was briefly the most valuable company in the world by market cap, "Cisco isn't really a company. It's a wealth-creation machine." Well, that's the kind of thing people say at tops. And "no one else is buying anything" is the kind of truth that people finally admit when you're a lot closer to the bottom. **TM**