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Tech earnings will show how Silicon Valley is faring in the downturn

By **Steve Johnson**
Mercury News
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Some of Silicon Valley's largest and most important tech companies are about to unveil earnings reports this month that will be eagerly scrutinized by analysts and investors, looking for signs about the future economic health of this region's dominant industry.

Many of the profit and sales figures for the first three months of this year are bound to be unimpressive, if not downright dismal. After all, the previous quarter, by and large, was horrendous.

More critically, investors and Wall Street experts will be looking at how companies describe future quarters, on the watch for any signs that the recession has bottomed out — or at least eased a bit for tech. And the fate of these companies has profound implications for Silicon Valley, which until recently has been less battered by the recession than other parts of the country, primarily because of the tech industry's strength.

Few reports will be checked more closely than the one to be issued Tuesday by Intel, the world's dominant maker of chips.

"We're all going to be watching Intel," said Craig Berger an analyst with FBR Capital Markets. "Intel is going to be a guidepost for the rest."

Intel's semiconductors serve as the brains for a wide variety of personal computers, servers and other electronic gadgets. So when Intel's chip sales dwindle, it signals a possible slowdown in business at other companies that use its products, ranging from giants like Hewlett-Packard to

small, off-brand personal-computer makers.

"Their shipments are kind of a good indicator of the overall industry," said Richard Shim, who tracks the PC market for research firm IDC. "It gives us a sense of which way the wind is blowing."

While most analysts predict Intel will eke out a profit for the first three months of this year, some have speculated it might report its first quarterly loss since the fourth quarter of 1986.

Later in the week, Google, a bellwether for the Internet sector, announces its earnings. That will be intriguing, and also closely watched, because the company has performed relatively well so far in the recession. Although its fourth-quarter net income fell 68 percent from a year before, its revenue grew 18 percent, beating Wall Street's expectations. And in January, Google CEO Eric Schmidt called his business "quite healthy."

However, Schmidt at the same time also warned that Google was not immune to the effects of the downturn. Last month, the company announced it is

trimming just under 200 positions from its sales and marketing operations, or about 1 percent of its global work force. And ThinkEquity analyst William Morrison told his clients in a note Thursday that "we wouldn't be surprised to see the company report revenue down 5 percent to 7 percent" from the fourth quarter.

Among those disclosing their finances the following week is eBay, which has been facing tough competition, particularly from [Amazon.com](#). Its investors will be paying close heed to what it reports because its stock has taken a big hit, down 53 percent in the past 12 months. And, as Jefferies & Co. analyst Youssef Squali put it in a note Friday to his clients, "Investors are growing restless."

Although Apple's stock has sagged somewhat, too, the Cupertino company generally has weathered the recession better than most. And it has kept its fanatical following of loyal customers happy by periodically introducing trendsetting new products, selling at premium prices.

Noting that the company is expected to roll out a new iPhone later this year, Kaufman Bros. analyst Shaw Wu advised investors last week that "Apple is one of the better fundamental names to own in this tough macroeconomic environment." Its shares have risen about 32 percent since the beginning of the year.

Sun Microsystems, which reports later in the month and reportedly just rejected a buyout offer from IBM, has had such a poor track record in recent years it would take a lot to get its investors excited, said Pacific Crest Securities analyst Brent Bracelin. Short of Sun announcing it has been acquired by another company, Bracelin said, "expectations are very low."

Still, most analysts have essentially discounted the numbers the companies will announce and are intently focused on future quarters.

Because everyone knows the recent past was awful, "my feeling is this quarter is probably not going to count," said Needham & Co. analyst Charles Wolf. "What's going to count is the guidance that is provided on these conference calls for the June quarters and perhaps beyond that."

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Stephen Baker, vice president of industry analysis for the research company NPD Group, agreed. "Given the state of the economy over the last few months, it's going to be pretty hard for anybody to do well," he said. "The real question is, "Have we hit bottom or are we going to hit bottom?" "

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EARNINGS SEASON

Starting this week, a number of Silicon Valley's biggest technology companies will report their quarterly earnings for what is expected to be a rough period. Investors will be more focused on their outlook for coming months and on watch for signals on how much longer the recession will hit the tech industry.

Tuesday: Intel

Thursday: Google

Tuesday, April 21: Advanced Micro Devices and Yahoo

Wednesday, April 22:

Apple and eBay

Tuesday, April 28: Sun Microsystems

Thursday, April 30: McAfee



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