

Broadcom posts lower profit, shares tumble

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SAN FRANCISCO (MarketWatch) -- Shares of Broadcom Corp. fell sharply Friday, a day after the chip maker reported a steep drop in second-quarter profit.

Broadcom [BRCM](#), [-0.41%](#) fell 6.8% to close at \$27.20 as the broader tech sector took a beating following bellwether Microsoft Corp.'s disappointing results.

The chip company's results were generally better than anticipated, despite lingering concerns about weaknesses in the tech market.

"Broadcom's shares are likely under pressure from a combination of factors," Stifel Nicolaus analyst Cody Acree said in a note, adding that the company "has enjoyed a significant rally over the last several weeks and profit taking on positive earnings has been a theme of this season."

However, JMP Securities analyst Alex Gauna downgraded Broadcom to market underperform from market perform, "owing to our belief that this reporting season will mark the peak in Broadcom's recovery momentum coupled with concerns over 2010 product roadmaps and margin structures."

Late Thursday, the Irvine, Calif.-based communications chip maker reported second-quarter income of \$13.4 million, or 3 cents a share, compared with a profit of \$134.8 million, or 25 cents a share, for the year-earlier period.

Revenue was \$1.04 billion, down from \$1.2 billion for the same quarter the previous year. The company's results included a \$65.3 million gain on a settlement with Qualcomm and \$67.3 million of licensing revenue. In April, Broadcom had announced a multi-year patent agreement and a settlement of legal disputes.

Broadcom also posted a charitable contribution expense of \$50 million.

Analysts had expected the Irvine, Calif.-based chip maker to report adjusted earnings of 24 cents a share, on revenue of \$984.4 million, according to data from Thomson Reuters. On a GAAP basis, analysts had expected the company to report income of 1 cent a share.

For the current quarter, the company said it expects revenue to increase sequentially by 7% to 14%, which translates to a range of roughly \$1.11 billion to \$1.19 billion.

Analysts currently expect the company to report revenue of \$1.02 billion, according to data from Thomson Reuters.

In a note to clients, Charter Equity Research analyst Edward Snyder said Broadcom's results also offer good signs for the broader chip industry.

"Our main concern before the quarter was that the rebound in semis would prove to be a one-quarter phenomenon driven by inventory restocking, however, the fact that Broadcom reported undershipping demand slightly as lead times stretched and combined with the reports from other semi manufacturers that the channel remains lean, lead us to believe that shipments will remain strong," he wrote.

In a prepared statement, Chief Executive Scott McGregor said the company's results "reflected a return to a more stable ordering pattern" despite uncertainties in the global economy.

In a call with analysts, he also said, "Based upon the customer activity we experienced to date, we expect the revenue momentum we experienced in the second quarter to continue into the third quarter. We anticipate the revenue growth will be broad based with the greatest dollar growth contribution from our mobile and wireless target market."



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