Spotlight Shines on Lucent

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Investors will be hoping for a little illumination from **Lucent Technologies** (LU) Wednesday morning.

The Murray Hill, N.J., telecom equipment giant is scheduled to deliver yet another installment in its familiar saga to balance solid wireless gains with slipping wireline gear sales. Wall Street is eager to see Lucent's fiscal fourth-quarter numbers and even more curious about the company's year-ahead forecast.

The stock has been stuck around $3 for the better part of the year as investors await signs that the two businesses, now folded together, can move in unison, and ideally, for the better.

Early reports from Lucent's suppliers and manufacturing partners like **Celestica** (CLS) seem to indicate another ho-hum performance is in the books. So the real mystery is what's coming around the corner.

Among the biggest concerns for Lucent watchers is that there may be some slowdown in wireless infrastructure orders as big customers like **Verizon Wireless**, a joint venture of **Verizon** (VZ) and **Vodafone** (VOD), review next year's budget.

"There is risk of Verizon cutting back on wireless spending in 2005 and 2006," UBS analyst Nikos Theodosopoulos wrote in a recent report. Theodosopoulos has a neutral rating on Lucent.

Verizon is waging a two-pronged spending offensive by upgrading its wireless network with evolution data-only, or EV-DO, technology, while pushing its fiber optic cable further out into communities to deliver TV, phone and Net services.

Something may have to give, say some observers. The company can fund either third-generation, or 3G, wireless, or it can spend on the fiber-optic triple play -- but not both.

"Verizon did not cut EV-DO pricing by 25% because demand was too brisk," says Charter Equity Research analyst Ed Snyder in a preview note. "On the contrary, the value for 3G in general and EV-DO in particular is underwhelming, just as it has been with deployments in Asia and Europe," says Snyder, who also rates Lucent a neutral.

But Lucent fans see a respectable pipeline of orders from outfits like **Cingular**, the wireless service provider co-owned by **SBC Communications** (SBC) and **BellSouth** (BLS). And financially, Lucent is on strong footing thanks to a $900 million tax rebate. The company took advantage of federal tax rules that allowed it to take massive losses from 2001 and deduct them from a prior-year profit.

The company has also cut 1,000 employees as of June and is expected to report that it has dismissed more of its 30,800-member workforce.

Lucent has been busy relocating a good portion of its software research and development to India and China. CEO Pat Russo is said to be very impressed with the progress on this front in India, according to one Lucent insider.

Analysts expect Lucent to post earnings of a nickel a share on sales of $2.46 billion. The much-watched gross margins are expected be around 44%. Anything below 42% will likely be seen as trouble, says Charter's Snyder. But similarly, if Lucent widens margins beyond 45%, it could mean good things for the stock.

Lucent shares rose 7 cents Monday to $3.15.

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