Limbering Up for Lucent

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Lucent (LU) is set to remind investors why it agreed to join up with telecom equipment rival **Alcatel** (ALA).

The Murray Hill, N.J., networking gearmaker will post fiscal second-quarter financial results before the market opens Tuesday. Investors are anxious to see if the weak wireless-infrastructure sales at rivals **Nokia** (NOK) and **Motorola** (MOT) are indicative of sluggish demand across the industry.

Lucent is particularly vulnerable to the spending whims of its big U.S. customers. Lucent is supplying advanced gear for major upgrades at **Cingular**, the wireless joint venture of **AT&T** (T) and **BellSouth** (BLS), as well as **Sprint** (S) and **Verizon Wireless**, co-owned by **Verizon** (VZ) and **Vodafone** (VOD).

Observers are wary since Cingular already singed suppliers like **Powerwave** (PWAV) recently by putting a sudden squeeze on orders. Cingular's capital spending was below budget in the first quarter, though the company did vow to catch up over the rest of the year.

And with most of Verizon Wireless' network upgrades complete, Sprint becomes an increasingly important customer. But the No. 3 cell phone service has had its hands full lately with integration efforts as it works Nextel into the fold.

Given the ominous signs among the telcos, analysts and investors see little reason to think Lucent had a blowout quarter.

Wall Street is expecting Lucent to post an adjusted profit of 3 cents a share on sales of $2.24 billion for the quarter ended last month, according to Reuters Research.

Last month, Lucent and France's Alcatel announced a $13.4 billion merger in response to the rash of consolidations among phone companies. With fewer customers and smaller orders, the equipment vendors saw an opportunity to combine products and cut costs.

The Lucent/Alcatel matchup is expected to result in about 8,800 job cuts. The 10% cutback will contribute about half of the $1.69 billion in so-called cost-saving synergies to be realized in the three years after closing, executives have said.

For now, Lucent's planned link with Alcatel is likely to keep the stock on solid footing even if the second quarter does turn out weak. Terms of the deal call for Alcatel to provide 0.1952 shares for each Lucent share, essentially putting Lucent's stock in lock step with Alcatel's.

"Slow revenue growth and increasing expenses will have little effect on the stock given the Alcatel offer," Charter Equity Research analyst Ed Snyder says in a research note

Lucent shares were down a nickel to $2.96 and Alcatel was off 9 cents to $15.48 in midday trading Monday.