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*Telecom Carriers and Suppliers Go Their Separate Ways on Profits*
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By Ken Belson

Thanks to the wave of mergers that has swept the telecommunications industry in recent years, carriers are getting bigger and their suppliers are taking it on the chin, a trend highlighted in figures released yesterday.

AT&T, the nation's biggest phone company, said its profit grew a better-than-expected 63 percent in the first quarter, thanks in part to cost-cutting measures after the merger of SBC Communications and AT&T last November. AT&T also benefited from expanding revenue at Cingular, which became the largest mobile phone company when it merged with AT&T Wireless in 2004.

At the same time, Lucent Technologies, the nation's biggest telecommunications equipment maker, which was once part of AT&T, said profit fell by almost a third in the quarter compared with the period last year. The company also said sales this year would decline because of, among other things, mergers by its customers.

While Lucent is the leading provider of the primary technology used by Verizon Wireless and Sprint, those companies are taking a breather after spending billions of dollars to upgrade their networks. At the same time, Lucent's fixed-line customers are merging: Verizon purchased MCI this year while SBC bought AT&T last year, took over its name and said in March that it would buy BellSouth.

"The mergers are going to impact everyone who depends on the Bells," said John Hodulik, a telecommunications analyst at UBS Securities. "When it comes to marketing and buying equipment, the Bells are going to get better deals."

Cost-cutting at AT&T played a big role in the first quarter. The company earned $1.45 billion, or 37 cents a share, in the first three months of the year, compared with $885 million, or 27 cents a share, in the period of 2005. The company said it had reduced its overlapping networks and cut jobs faster than anticipated. AT&T stock closed at $25.60 a share, up 7 cents, or 0.27 percent.

Sales in the quarter hit $15.8 billion, 55 percent more than in the first quarter of 2005, including the additional revenue from the old AT&T. Cingular Wireless, which AT&T owns with BellSouth, added 1.7 million subscribers in the quarter, while AT&T signed up 511,000 high-speed Internet customers.

AT&T hopes to attract even more customers with faster connection speeds. The company today will begin selling broadband lines with speeds of up to six megabytes a second for as little as $27.99 a month. Customers must sign a one-year contract to receive the promotional price, which is about $10 less than similar connections sold by cable companies.

AT&T will do this while trying to cut costs. Richard Lindner, the company's chief financial officer, said he expected capital spending at AT&T and Cingular to decline $2 billion to $2.5 billion next year. Cingular, he said, will have largely completed its integration with AT&T Wireless and finished its current upgrade of its high-speed cellular network. AT&T will also spend less installing fiber optic cables that it plans to use to sell television services.

With its customers merging and trimming their capital spending budgets, Lucent has been forced to seek a partner as well. Earlier this month, Lucent said it would join hands with Alcatel of France. While the companies have called the deal a "merger of equals," the much-larger Alcatel may be buying a diminishing asset.

Lucent earned $181 million, or 4 cents a share, from January to March, the second quarter of its fiscal year. That was down from the $267 million, or 6 cents a share, it earned in the quarter last year. Sales fell 8.6 percent in the quarter, to $2.14 billion; the company expects sales to fall for the entire fiscal year, which runs through Sept. 30.

Lucent had expected revenue to be unchanged or to grow in the low single digits. Its stock closed at $2.93 a share, down 4 cents, or 1.35 percent.

The company was hurt in China, where the government has been slow to hand out licenses to operate next-generation cellular service, and in India, where pressure to cut prices has made it harder to sell equipment profitably. Problems in those countries will shave about $500 million off full-year sales.

Lucent has also seen a lull in investment by American wireless carriers in third-generation mobile phone networks.

"What we're finding is that some of these things are happening at a more measured pace," said Patricia F. Russo, Lucent's chief executive officer.

She added that her company was on track to gain regulatory approval for its merger with Alcatel in the next 6 to 12 months. She also acknowledged that by teaming up with Alcatel, Lucent would be better able to withstand the competition.

"Size and scale really do matter" in this industry, she said. "As a combined player, we'll be No. 1 or No. 2 in every area we operate and we'll have the capacity to reinvest."

**Even if Lucent and Alcatel merge, there may still be too many equipment makers, some analysts say. That is because the two companies do not have a lot of overlapping businesses that can be eliminated. Instead, "they are perfectly complementary so they will take nothing out of the industry," said Edward Snyder, an analyst at Charter Equity Research in San Francisco.**

**Mr. Snyder said he expected other equipment makers to merge as well.**

**"There are too many suppliers and not enough demand," he said.**