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Lucent Talks Raise Issue of Security

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As merger talks between [Lucent](#) and [Alcatel](#) continue to advance, attention is turning to the role Lucent's fast-growing work for military and intelligence agencies may play in securing government approval for the trans-Atlantic deal.

With a long history of contributing to military efforts like ballistic missile technology and submarine sonar, the famed Bell Labs unit of Lucent is widely expected to become a focal point when the deal is presented to regulators in Washington for approval.

Though the companies have said that they are discussing a "merger of equals," experts say the deal will probably be treated as an acquisition of an American company by a foreign entity because Alcatel of France is one and a half times the size of Lucent and the combined company will probably be based in Paris.

An Alcatel spokesman said yesterday that the company's board would meet on Thursday, but declined to comment further. People close to the negotiations said the deal could be finished as early as this week, though they said a formal announcement might be pushed into the weekend.

National security concerns related to Bell Labs are among the unresolved issues being discussed by executives, these people said. Options said to be considered include completely spinning off the division, which has about 9,000 employees, or separating a unit that does classified work, using a corporate structure frequently employed in the military industry. But they said the companies hoped that none of those remedies would be necessary.

The Committee on Foreign Investment in the United States, overseen by the Treasury Department, reviews deals that give foreigners control over operations involving classified matters, export-controlled information, American infrastructure regarded as vital or a sole-source supplier to the Defense Department.

The committee starts with a 30-day formal review, which can be expanded into a 45-day investigation, and if the matter is still unresolved, the deal could be forwarded to the White House for a presidential decision.

Bell Labs was created by American Telephone and Telegraph in 1925 as a wide-ranging research and development center for new technologies in conjunction with its equipment subsidiary, Western Electric, which evolved into Lucent, based in Murray Hill, N.J.

The unit, whose researchers helped develop groundbreaking technologies like the transistor and the Unix computer system, was called upon by successive administrations to aid the military during World War II and the cold war.

"It was the equivalent of the national laboratories," said Narain Gehani, a 23-year Bell Labs veteran who wrote "Bell Labs: Life in the Crown Jewel" (2003, Silicon Press).

After the 1984 breakup of A.T.&T., Bell Labs' involvement in military work started tapering off and fell off more sharply when it became part of an independent Lucent in 1996. A year later, Lucent sold one of its last military businesses, a unit that made submarine surveillance systems based in Greensboro, N.C., to General Dynamics for \$284 million.

In recent years, however, Lucent has given new emphasis to government business, largely as a source of lucrative and stable military and intelligence communications contracts, after many of its commercial customers went bankrupt or severely scaled back spending on equipment.

At a November meeting with Wall Street analysts, for instance, Lucent executives said its business running communications networks for governments had grown 50 percent in 2005 and 100 percent in 2004. It highlighted a \$100 million contract to rebuild and modernize Iraq's communications system and a \$242 million contract to modernize a United States Army network.

But when asked to quantify the company's business with the government, a spokesman said yesterday that Lucent did not break that information out.

Loren Thompson, a military analyst at the Lexington Institute in Arlington, Va., said, "Compared with the cold war, Lucent's activity today has much less of a military cast."

But he also noted that the Bush administration's drive to modernize the military into a more agile and responsive force was greatly benefiting Lucent and other communications vendors. "The technologies which Lucent is engaged in are at the cutting edge of military innovation," Mr. Thompson said.

Some of the work has a decidedly futuristic focus, like an \$11.5 million grant from the Defense Advanced Research Projects Agency to develop high-speed wireless networks that can be quickly assembled to allow troops to communicate with one another on battlefields.

Several former Lucent and Bell Labs officials said that over the years a small Bell Labs team based in Whippany, N.J., had been dedicated to classified projects and that even senior executives were not fully aware of the group's work because they lacked the requisite security clearances.

Former Bell Labs researchers say the government is financing an increasing share of the basic research done at the labs, because scarce corporate dollars are reserved for commercial product development.

"Unlike the rest of the company, in research, the major funding comes from the government," said Robert W. Lucky, who worked at Bell Labs for three decades before leaving in 1992. He sits on the Defense Science Board, which advises the Pentagon.

Mr. Lucky and other experts said that they expected that Bell Labs' close ties to the government would mean extra scrutiny especially from an increasingly protectionist Congress, but that the merger would ultimately be approved.

So far, the Alcatel-Lucent talks have not given rise to the kind of concerns voiced after the Bush administration approved a deal for a company owned by the government of Dubai to manage some terminal operations at six American ports.

A spokesman for Senator [Frank R. Lautenberg](#), Democrat of New Jersey, said yesterday that the two deals were not comparable, because Alcatel was not a government-owned entity. (The French government owns 4.8 percent of Alcatel's shares.)

Charles Walston, the spokesman, said Mr. Lautenberg was looking to see whether the deal was truly a merger of equals, "and whether Lucent has a lot of control and if it is structured such that Bell Labs would be autonomous."

Senator [Charles E. Schumer](#), Democrat of New York, who took a leading role in opposing the ports deal, issued a brief statement that said, "The Bell Labs are some of the premier research institutions in the country, and we should watch this proposed merger carefully."

Harry L. Clark, a lawyer at Dewey Ballantine who specializes in getting federal approval for foreign transactions, said the "political dimension" could play a role. "For a century, Bell Labs has been a crown jewel of American research," he said.

Scott Shane and John Markoff contributed reporting for this article.