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Alcatel Chief Out As Woes Linger

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ing, analysts predict a year-on-year decline in quarterly operating income, and a full-year cash burn of more than €800 million (\$1.09 billion)—its seventh consecutive year of negative cash flow.

The company has responded to its losses with a €2 billion loan package to buy time for a restructuring that aims to shed unprofitable products and exit underperforming contracts, especially in the troubled European market. The result is that a company with century-old roots in Europe will be doing less business there.

But there has been debate inside Alcatel-Lucent about how to put a company that has been in seemingly endless turnaround mode on sounder footing once and for all.

In meetings late last year, as investors fretted the company would be unable to refinance its debt in coming years, Mr. Verwaayen and other board members ultimately decided to pursue a plan—dubbed “Project Secular”—to buy time by mortgaging key assets.

Investors cheered the loan package, which has pushed the company's stock up more than 50%. But some advisers and clients say the company eventually will have to consider deeper changes. Alcatel-Lucent's stock price, which closed Tuesday at €1.30 a share, has dropped 87% since its 2006 merger.

“Even if they got a breath of oxygen with this arrangement, it's only temporary,” said Stéphane Richard, chief executive of France Télécom, Alcatel-Lucent's biggest wireless client in Western Europe. “What we're waiting for above all is for Alcatel to come up with a strategy.”

Alcatel-Lucent's strategy for years has been to be an end-to-end supplier for the biggest telecommunications companies in the world. It supplies everything from the submarine cables that wire together continents to the software that phone companies use to calculate and send out phone bills every month. It can plan new wireless networks, make the equipment and then be the outsourcing company to maintain the whole thing.

But Alcatel-Lucent has struggled to turn a consistent profit across its businesses. Europe has been a particular problem. Amid a struggling economy, phone companies have been slow to upgrade networks. Alcatel-Lucent revenue in Western Europe was down 19% through the third quarter of 2012, according to company filings, and its wireless division, where the company has been losing bidding for European contracts, was off 23%.

Few companies—apart from China's massive Huawei Technologies, which had nearly 50% more revenue than Alcatel-Lucent in 2011—compete on such a wide playing field. Sweden's even-larger Ericsson focuses more on networks, services and software for mobile operators. When it comes to Internet routing and switching, Alcatel-Lucent competes instead against Cisco Systems Inc. and Juniper Networks Inc. In next-generation optical networks dubbed 100G, its rivals include companies like Huawei

and Ciena Corp.

That breadth has stretched a research budget that is already trailing bigger competitors. Ericsson spent 47% more on research in the first nine months of 2012 than Alcatel-Lucent. Huawei began outpacing Alcatel-Lucent in absolute research spending in 2011, even though Huawei's China-based engineers cost much less.

Alcatel-Lucent officials say their situation means they simply have to be smarter than competitors about where they place their technology bets. “It's not a matter of size,” Alcatel-Lucent's Mr. Verwaayen said in an interview in November. “It's a matter of choices that we make.”

Alcatel-Lucent is the offspring of two giants. France's Alcatel descends from a French industrial behemoth that developed bullet trains. Lucent was the equipment arm for the original AT&T and includes Bell Labs, which helped invent the laser and the idea of a cellular network. In 1986, the two units were Nos. 1 and 2 in the global telecommunications-equipment market, accounting for a 49% combined market share, according to figures The Wall Street Journal reported at the time.

Both companies were humbled by the rise of the Internet. Each invested billions to buy companies that would help them shift from their traditional bread-and-butter business of gear that routes phone calls. Both reeled when the telecom bubble burst in 2000, sapping profits. The two nearly merged in the wake of that meltdown, but the deal was scuttled when they couldn't agree who would run the combined company.

By 2006, when Lucent and Alcatel were again at the altar, the telecom world had changed. Chinese companies like Huawei and ZTE Corp. were stealing customers and forcing discounting. A wave of consolidation among telecommunications companies meant suppliers were fighting over fewer customers. The merger was billed as a way to recreate a colossus with the pricing power to compete against its bigger peers.

It didn't work out that way. The merger left the company mired in turf battles between its American and French sides, scuffling over duplicated products and diverging accounting methods, according to people close to the company. Managers lurched from cost-cutting plan to cost-cutting plan, but revenue continued to fall.

Mr. Verwaayen, the former CEO of British telecom giant BT Group, arrived in late 2008 promising to turn Alcatel-Lucent into a “normal company” with regular profits. He sold assets such as the company's stake in defense contractor Thales SA to raise cash. He started making research choices that would define the company's direction—weeding out some technologies and focusing on others.

The choices were stark in wireless. Mr. Verwaayen shifted hundreds of millions of euros in research and development money away from 3G wireless technologies that were common in Europe, in order to spend it on researching next-generation 4G wireless transmitters, current

A Rocky Road | Alcatel-Lucent has hit some rough spots since its creation in a merger six years ago

Dec. 1, 2006: Paris-based Alcatel and New Jersey-based Lucent Technologies merge.



Revenue by region



Note: €1 = \$1.35

Net income



Source: FactSet (stock price); the company

Employees by region



The Wall Street Journal

and former employees said.

That catered to the company's two largest clients, AT&T Inc. and Verizon Communications Inc. But the cuts made it difficult for Alcatel-Lucent to keep up in Europe's wireless market. The company had trouble matching a Huawei product that put different generations of wireless transmitters—2G, 3G and now 4G—in a single small unit, a demand of many European operators. It lost a round of 3G network upgrades, according to people familiar with the bidding.

Alcatel-Lucent executives had bet that their research in 4G would allow the company to

While Alcatel-Lucent was profitable in 2011, the financial picture darkened again in 2012.

“jump” a generation in Western Europe, according to people familiar with the matter. It hasn't worked so far. In the past year and a half, the company has lost bidding for a series of 4G contracts from operators owned by companies including Vivendi SA and Telekom Austria, according to people familiar with the bidding.

“Alcatel just didn't have the technology,” said Jean-Paul Arzel, network chief at France's Bouygues Telecom, a unit of Bouygues SA, which didn't pick Alcatel-Lucent for its 4G. “They weren't keeping up.”

While Alcatel-Lucent managed in 2011 to turn its first profit since the merger, the picture darkened in 2012. In the first half of 2012, sales were down 20% in

Western Europe in the first half, and 41% in France, according to company filings. Behind the scenes, the company's management and board decided they had to accelerate cost-cutting, sacrificing the company's position as a supplier to everyone.

“We were realizing that in certain parts of the market, we were going to need to change,” said Philippe Keryer, head of the networks division at Alcatel-Lucent. “We couldn't be everything for everybody anymore.”

The company unveiled its “Performance Program” in late July. The plan promised to slash €1.25 billion in annual costs by the end of 2013, by reorganizing the company and cutting 5,500 jobs—or roughly 7% of its 2011 workforce. The company said it would exit underperforming contracts, many of them in Europe, and focus increasingly on more profitable businesses like Internet routing.

It didn't take long for the plan to be overtaken by events. The company burned €360 million in cash during the third quarter. Its already junk-rated debt hit distressed levels with some bonds trading for 60 cents on the dollar in August. “The fear was that the company would run out of money,” said Yannick Naud, a portfolio manager at Glendevon King, a London-based asset-management company.

Company executives said they had enough cash to handle maturing debt through next year, but they were pressured as the cost to insure their debt against default rose. So they began exploring a loan deal with banks.

As the clock ticked toward the end of 2012, there was discussion of doing more than just boosting liquidity. Nokia Siemens Net-

works, a joint venture of Finland's Nokia Corp. and Germany's Siemens AG, for instance, was seeing the beginnings of a turnaround amid much more drastic cuts—shedding 17,000 jobs, nearly a quarter of its global workforce.

Debates heated up inside Alcatel-Lucent over the loan plan, which would raise money by mortgaging crown jewels such as the company's cache of 30,000 patents or a set of mostly U.S. assets that provided the majority of Alcatel-Lucent's earnings.

Board members discussed the risks of putting such assets up for collateral, one of the people familiar with the deliberations said. But eventually, just days after Paris's stock exchange booted Alcatel-Lucent from its main stock index, the company said it was proceeding with the loans.

“We must ensure that we execute our plan,” Mr. Verwaayen said in an interview shortly after the loan deal was first announced in December. “Execution is everything.”

Cuts have begun. Alcatel-Lucent plans to exit or renegotiate roughly €600 million in unprofitable or only barely profitable agreements to run phone operators' networks—more than half of which are in Europe, according to a list provided to unions. Those deals, in countries including Germany, France and the U.K., involve thousands of additional potential job cuts, according to the list.

Alcatel-Lucent's Mr. Verwaayen declined to comment on the list, though a spokesman confirmed that the company has gotten out of at least two of the deals on it, in Switzerland and India.

In Europe, Alcatel-Lucent's

Burning Cash

Free cash flow since Alcatel-Lucent merger, in millions



Note: €1 = \$1.35

Source: the company

The Wall Street Journal

loan plan has caused alarm. The French government said in late January that it hopes to boost the telecom industry in order to give a leg up to Alcatel-Lucent. A state-owned patent company has also proposed a deal with private-equity backers to resell rights to Alcatel-Lucent patents in order to raise cash, according to a person familiar with the matter. Whether that deal happens or not, the company plans to raise funds by selling or otherwise cashing in on its patent portfolio.

Some Alcatel-Lucent workers fear for the future. In late January, French unions gathered outside France's National Assembly to protest the loan package. Union officials have also distributed a petition protesting the company's “withdrawing from its traditional European base.”

—Joann S. Lublin contributed to this article.

Online»

See a timeline of Alcatel-Lucent's history at WSJ.com/PageOne.

Studios Stylist Turns Ancient Hairdo Debate on Its Head

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towering and braided styles of the day were wigs.

She didn't buy that. Through trial and error she found that she could achieve the hairstyle by sewing the braids and bits together, using a needle. She dug deeper into art and fashion history books, looking for references to stitching.

In 2005, she had a breakthrough. Studying translations of Roman literature, Ms. Stephens says, she realized the Latin term “acus” was probably being misunderstood in the context of hairdressing. Acus has several meanings including a “single-prong hairpin” or “needle and thread,” she says. Translators generally went with “hairpin.”

The single-prong pins couldn't have held the intricate styles in place. But a needle and thread could. It backed up her hypothesis.

In 2007, she sent her findings to the *Journal of Roman Archaeology*. “It's amazing how muchchutzpah you have when you have no idea what you're doing,” she says. “I don't write scholarly material. I'm a hairdresser.”

John Humphrey, the *Journal's* editor, was intrigued. “I could tell even from the first version that it was a very serious piece of experimental archaeology which no scholar who was not a hairdresser—in other words, no scholar—would have been able to write,” he says.



Models wear historic hairstyles, including the 'Vestal Virgin' style, left, and one favored by Cleopatra, right.



He showed it to an expert, who found the needle-and-thread theory “entirely original,” says Mr. Humphrey, whose own scholarly work has examined arenas for Roman chariot racing.

Ms. Stephens' article was edited and published in 2008, under the headline “Ancient Roman Hairdressing: On (Hair) Pins and Needles.” The only other article by a nonarchaeologist that Mr. Humphrey can recall publishing in the *Journal's* 25-year history was written by a soldier who had discovered an unknown Roman fort in Iraq.

Ms. Stephens dates her fascination with hair to her childhood in Kennewick, Wash., where she entertained herself as a five-

year-old by cutting the neon tufts on her Troll dolls. When she chopped off all the Troll fluff and realized it wouldn't grow back, she says, she got into styling, creating Troll costumes including an Egyptian suit of armor made of tin foil. “Whatever you're most passionate about when you're five is what you should do for the rest of your life,” says Ms. Stephens, 54 years old.

In recent years, Ms. Stephens has reconstructed the styles of ancient royals including Faustina the Younger and Empress Plotina—sometimes on live models. Last year she gave a presentation at an Archaeological Institute of America conference in Philadelphia in which she lined up sev-

eral mannequin heads. “It was like a bad science-fair project,” she says. “I had no idea what I was doing.” Also speaking that day: a researcher with new insight into spearheads from the Iron Age in South Italy.

There is one hairstyle that Ms. Stephens says she hasn't been able to find a real, live model to submit to. The style, seen on an ancient Roman sculpture known as the Fonseca Bust, boasts a tall, horseshoe-shaped pile of curls in the front that would involve cutting the model's hair. “It's like a mullet from hell,” she says.

At the cavernous, Buddha-filled Baltimore salon where Ms. Stephens is employed, her fellow stylists find her archaeological

work a bit mysterious. Nevertheless, they occasionally model for her Roman re-creations.

One of them is Rachael Lynne Pietra. Her long tresses provided an ideal medium for demonstrating a style worn by the Vestal Virgins—women who took a vow of chastity and guarded a sacred fire in ancient Rome.

“People have been interested in the construction of that hairstyle for centuries,” says Ms. Stephens. Big problem: Vestals wore their hair covered, so there are almost no carvings or images of the complete hairdo.

Ms. Stephens solved the mystery by studying many portraits, each showing bits of braids poking out from the front and back of the head covering. Then she “started scribbling” on the images, she says, “color-coding everything—this braid looks like it belongs with this one; that braid belongs with that one.”

In a YouTube video by Ms. Stephens, “Vestal Hairdressing,” she intones: “The Roman grammarian Festus informs us that both brides and the Vestal Virgins wore an ancient hairstyle called the *Seni Crines*.”

The resulting nest of braids was “awesome,” says Ms. Pietra, the model in the video. Although it did feel “heavy,” she promptly took it down.

Ms. Stephens is “crazy, crazy intelligent,” Ms. Pietra notes.

Not everyone agrees with the hairdresser's theories. Last

month, at an Archaeological Institute of America conference in Seattle, Ms. Stephens says, a woman doing a dissertation on Vestal Virgin hair took issue with her argument that the Vestal hairstyle was built out of seven separate braids—not six as long believed.

“I walked her through it,” Ms. Stephens says. “There's a logic to hair.”

Marden Nichols, curator of ancient art at the Walters Art Museum, says Ms. Stephens is able to “break new ground” specifically because of her work as a stylist.

“Like many classicists, I spend my days analyzing works of literature and art that relate to activities I have never performed: harvesting crops, building temples, sacrificing animals,” she says. Ms. Stephens can “draw upon practical experiences.”

Thus far, none of Ms. Stephens' clients have asked her to do one of the ancient ‘dos on them. But after her work appeared online, she says, “I did have a man fly down from Boston to get an Augustus Caesar cut.”

Watch a Video»

Scan this code to watch a video about grooming ancient hairstyles, or watch online at WSJ.com/PageOne.