



BUSINESS

Tellabs says profit up 32 percent with tax gain

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NAPERVILLE Tellabs Inc., the maker of telephone equipment for AT&T Inc., posted a 32 percent increase in second-quarter profit after again related to tax audits.

Net income rose to \$39 million, or 10 cents a share, from \$29.6 million, or 7 cents, a year earlier, Naperville-based Tellabs said Tuesday in a statement. Revenue fell 19 percent to \$432.5 million.

Sales this quarter will be little changed or slightly down, and there are "risks" in the economy and in customer spending, Tellabs said.

Wireless providers are upgrading systems to offer faster Web access on devices such as Apple Inc.'s iPhone 3G. They are picking Internet-based gear from companies including ADC Telecommunications Inc. and Adtran Inc. over products such as the Tellabs 5500, which are based on older technology.

"Demand for core 5500 cross-connect products continues to deteriorate," Ari Bensinger, an analyst at Standard & Poors in New York, wrote in a report Tuesday. He has a "hold" rating on the shares.

Tellabs had a gain of \$35 million, or 9 cents a share, after the Internal Revenue Service audited the company. Profit, excluding costs such as stock-based compensation, was 13 cents. Analysts estimated that Tellabs would break even on sales of \$435.5 million.

Tellabs rose 7 percent, or 33 cents, in trading Tuesday. As of Monday, the shares had lost 60 percent of their value in the past year, making them the worst performers in the Standard and Poors 500 Communications Equipment Index.

The third-quarter forecast indicates sales of as much as about \$432.5 million. Analysts project \$442.2 million, according to the average of estimates in a Bloomberg survey.

"We do see some softness in North America," Chief Executive Officer Rob Pullen said in an interview. Telecommunications companies may delay some network upgrades because of the slowing economy, he said.

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