Consolidated Statements of Income

Lucent Technologies Inc. and Subsidiaries

(amounts in millions, except per share amounts)

	Years Ended September 30,		
	2000	1999	1998
REVENUES	$33,813	$30,617	$24,367
Costs	19,539	15,605	12,938
GROSS MARGIN	14,274	15,012	11,429
OPERATING EXPENSES			
Selling, general and administrative	6,266	5,806	4,424
Research and development	4,018	4,220	3,667
Purchased in-process research and development	1,005	292	1,385
Total operating expenses	**11,289**	**10,318**	**9,476**
Operating income	**2,985**	**4,694**	**1,953**
Other income – net	366	402	110
Interest expense	348	318	143
Income from continuing operations before provision for income taxes	3,003	4,778	1,920
Provision for income taxes	1,322	1,752	1,151
Income from continuing operations	1,681	3,026	769
Income (loss) from discontinued operations (net of tax (benefit) provision of ($78), $256 and $347, respectively)	(462)	455	296
Income before cumulative effect of accounting change	1,219	3,481	1,065
Cumulative effect of accounting change (net of income taxes of $842)	–	1,308	–
Net income	**$ 1,219**	**$ 4,789**	**$ 1,065**
EARNINGS (LOSS) PER COMMON SHARE – BASIC			
Income from continuing operations	$ 0.52	$ 0.97	$ 0.25
Income (loss) from discontinued operations	(0.14)	0.15	0.10
Cumulative effect of accounting change	–	0.42	–
Net income	**$ 0.38**	**$ 1.54**	**$ 0.35**
EARNINGS (LOSS) PER COMMON SHARE – DILUTED			
Income from continuing operations	$ 0.51	$ 0.94	$ 0.25
Income (loss) from discontinued operations	(0.14)	0.14	0.09
Cumulative effect of accounting change	–	0.41	–
Net income	**$ 0.37**	**$ 1.49**	**$ 0.34**
Weighted average number of common shares outstanding – basic	3,232.3	3,101.8	3,025.3
Weighted average number of common shares outstanding – diluted	3,325.9	3,218.5	3,110.6

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Lucent Technologies Inc. and Subsidiaries

(dollars in millions, except per share amounts)

	September 30,	
ASSETS	2000	1999
Cash and cash equivalents	$ 1,467	$ 1,686
Receivables less allowances of $501 in 2000 and $318 in 1999	9,558	8,799
Inventories	5,677	4,240
Contracts in process, net of progress billings of $6,744 in 2000 and $5,565 in 1999	1,881	1,102
Deferred income taxes – net	1,165	1,472
Other current assets	1,742	1,941
Total current assets	**21,490**	**19,240**
Property, plant and equipment – net	7,084	6,219
Prepaid pension costs	6,440	5,459
Capitalized software development costs	688	436
Goodwill and other acquired intangibles, net of accumulated amortization of $1,072 in 2000 and $502 in 1999	9,945	960
Other assets	3,145	2,151
Net assets of discontinued operations	–	907
Total assets	**$48,792**	**$35,372**
LIABILITIES		
Accounts payable	$ 2,813	$ 2,537
Payroll and benefit-related liabilities	1,210	1,788
Debt maturing within one year	3,483	1,705
Other current liabilities	3,371	3,120
Total current liabilities	**10,877**	**9,150**
Postretirement and postemployment benefit liabilities	5,548	5,651
Long-term debt	3,076	4,162
Deferred income taxes – net	1,266	870
Other liabilities	1,853	1,603
Total liabilities	**22,620**	**21,436**
Commitments and contingencies		
SHAREOWNERS' EQUITY		
Preferred stock – par value $1 per share Authorized shares: 250,000,000 Issued and outstanding shares: none	–	–
Common stock – par value $.01 per share Authorized shares: 10,000,000,000 Issued and outstanding shares: 3,384,332,104 at September 30, 2000; 3,142,537,636 at September 30, 1999	34	31
Additional paid-in capital	20,390	7,994
Guaranteed ESOP obligation	(16)	(33)
Retained earnings	6,129	6,188
Accumulated other comprehensive income (loss)	(365)	(244)
Total shareowners' equity	**26,172**	**13,936**
Total liabilities and shareowners' equity	**$48,792**	**$35,372**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareowners' Equity

Lucent Technologies Inc. and Subsidiaries

(dollars in millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Guaranteed ESOP Obligation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowners' Equity	Total Comprehensive Income
Balance at October 1, 1997	**$ –**	**$30**	**$ 4,058**	**$(77)**	**$ 708**	**$(149)**	**$ 4,570**	
Net Income (excluding undistributed S-Corporation earnings)					980			$ 980
Reclassification of undistributed earnings of S-Corporation			85					85
Foreign currency translation adjustment						(89)		(89)
Unrealized holding losses on certain investments						(37)		(37)
Minimum pension liability adjustment						(8)		(8)
Dividends declared					(201)			
Amortization of ESOP obligation				28				
Issuance of common stock		1	654					
Tax benefit from employee stock options			287					
Issuance of common stock and conversion of stock options for acquisitions			1,525					
Conversion of common stock related to acquisitions			186					
S-Corporation distributions			(26)					
Other			5					
Total comprehensive income								**931**
Balance at September 30, 1998	**–**	**31**	**6,774**	**(49)**	**1,487**	**(283)**	**7,960**	
Net Income (excluding undistributed S-Corporation earnings)					4,781			4,781
Reclassification of undistributed earnings of S-Corporation			8					8
Foreign currency translation adjustment						(33)		(33)
Unrealized holding gains on certain investments (net of tax of $235)						307		307
Reclassification adjustment for realized holding gains on certain investments (net of tax of $178)						(246)		(246)
Minimum pension liability adjustment (net of tax of $6)						11		11
Effect of immaterial poolings			106		(26)			
Dividends declared					(222)			
Amortization of ESOP obligation				16				
Issuance of common stock			745					
Tax benefit from employee stock options			394					
Adjustment to conform pooled companies' fiscal year					170			
S-Corporation distributions			(40)					
Other			7		(2)			
Total comprehensive income								**4,828**
Balance at September 30, 1999	**–**	**31**	**7,994**	**(33)**	**6,188**	**(244)**	**13,936**	
Net Income					1,219			1,219
Foreign currency translation adjustment						(185)		(185)
Reclassification of foreign currency translation losses realized upon spin-off of Avaya						64		64
Unrealized holding gains on certain investments (net of tax of $124)						190		190
Reclassification adjustments for realized holding gains on certain investments (net of tax of $126)						(194)		(194)
Minimum pension liability adjustment (net of tax of $1)						2		2
Effect of immaterial poolings			25		(26)			
Issuance of stock by subsidiaries and investees			7					
Dividends declared					(254)			
Amortization of ESOP obligation				11				
Issuance of common stock			1,397					
Tax benefit from employee stock options			1,064					
Issuance of common stock and conversion of stock options for acquisitions		3	9,901					
Adjustment to conform pooled company's fiscal year					11			
Other			2					
Spin-off of Avaya				6	(1,009)	2		
Total comprehensive income								**$1,096**
Balance at September 30, 2000	**$ –**	**$34**	**$20,390**	**$(16)**	**$6,129**	**$(365)**	**$26,172**	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Lucent Technologies Inc. and Subsidiaries

(dollars in millions)

	Years Ended September 30,		
OPERATING ACTIVITIES	2000	1999	1998
Net income	$ 1,219	$ 4,789	$ 1,065
Less: Income (loss) from discontinued operations, net	(462)	455	296
Less: Cumulative effect of accounting change	–	1,308	–
Income from continuing operations	1,681	3,026	769
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:			
Business restructuring reversal	(5)	(108)	(77)
Asset impairment and other charges	–	236	–
Depreciation and amortization	2,318	1,580	1,228
Provision for uncollectibles	252	67	129
Tax benefit from employee stock options	1,064	394	287
Deferred income taxes	466	974	88
Purchased in-process research and development	1,005	19	1,385
Adjustment to conform pooled companies' fiscal years	11	170	–
Increase in receivables – net	(1,828)	(3,250)	(1,765)
Increase in inventories and contracts in process	(2,340)	(1,699)	(199)
Increase in accounts payable	266	727	88
Changes in other operating assets and liabilities	(1,192)	(2,280)	(20)
Other adjustments for non-cash items – net	(1,394)	(818)	(461)
Net cash provided by (used in) operating activities of continuing operations	**304**	**(962)**	**1,452**
INVESTING ACTIVITIES			
Capital expenditures	(2,701)	(2,042)	(1,615)
Proceeds from the sale or disposal of property, plant and equipment	29	80	44
Purchases of investments	(745)	(920)	(1,385)
Sales or maturity of investments	838	1,394	838
Dispositions of businesses	250	44	329
Acquisitions of businesses – net of cash acquired	(156)	(268)	(837)
Other investing activities – net	5	(70)	(71)
Net cash used in investing activities of continuing operations	**(2,480)**	**(1,782)**	**(2,697)**
FINANCING ACTIVITIES			
Repayments of long-term debt	(405)	(16)	(98)
Issuance of long-term debt	72	2,193	375
Proceeds from issuance of common stock	1,444	725	659
Dividends paid	(255)	(222)	(201)
S-Corporation distribution to stockholder	–	(40)	(26)
Increase in short-term borrowings – net	1,355	705	143
Net cash provided by financing activities of continuing operations	**2,211**	**3,345**	**852**
Effect of exchange rate changes on cash and cash equivalents	10	41	(67)
Net cash provided by (used in) continuing operations	**45**	**642**	**(460)**
Net cash (used in) provided by discontinued operations	(264)	(100)	84
Net (decrease) increase in cash and cash equivalents	(219)	542	(376)
Cash and cash equivalents at beginning of year	1,686	1,144	1,520
Cash and cash equivalents at end of year	**$ 1,467**	**$ 1,686**	**$ 1,144**

See Notes to Consolidated Financial Statements.

>> Notes to Consolidated Financial Statements

(dollars in millions, except per share amounts)

1. BASIS OF PRESENTATION

On September 30, 2000, Lucent Technologies Inc. (the "Company") spun off its Enterprise Networks business ("Avaya"). This transaction resulted in a distribution of Avaya common stock to each holder of Lucent common stock of record as of September 20, 2000. As a result of this transaction, the Consolidated Financial Statements and related footnotes have been restated to present the results of this business as discontinued operations (see Note 3).

In fiscal year 2000, the Company merged with Excel Switching Corporation and International Network Services ("INS"). In fiscal year 1999, the Company merged with Ascend Communications, Inc. and Kenan Systems Corporation. These mergers have been accounted for under the "pooling-of-interests" method of accounting, therefore, the Consolidated Financial Statements of Lucent were restated for all periods prior to the mergers to include the accounts and operations of Excel, INS, Ascend and Kenan (see Note 4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include all majority-owned subsidiaries in which Lucent exercises control. Investments in which Lucent exercises significant influence, but which it does not control (generally a 20% to 50% ownership interest), are accounted for under the equity method of accounting. All material intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for, among other things, long-term contracts, allowances for uncollectible receivables, inventory obsolescence, product warranty, depreciation, employee benefits, taxes, restructuring reserves and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the Consolidated Financial Statements in the period they are determined to be necessary.

Foreign Currency Translation

For operations outside the U.S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at end-of-period exchange rates. Translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in shareowners' equity.

Revenue Recognition

Revenue is generally recognized when all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenue from product sales of hardware and software is recognized at time of delivery and acceptance and after consideration of all the terms and conditions of the customer contract. Sales of services are recognized at time of performance, and rental revenue is recognized proportionately over the contract term. Revenues and estimated profits on long-term contracts are generally recognized under the percentage-of-completion method of accounting using either a units-of-delivery or a cost-to-cost methodology; profit estimates are revised periodically based on changes in facts; any losses on contracts are recognized immediately.

Research and Development and Software Development Costs

Research and development costs are charged to expense as incurred. However, the costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These capitalized costs are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in hardware and software technologies. Costs that are capitalized include direct labor and related overhead.

Amortization of capitalized software development costs begins when the product is available for general release. Amortization is provided on a product-by-product basis on either the straight-line method over periods not exceeding two years or the sales ratio method. Unamortized capitalized software development costs determined to be in excess of net realizable value of the product are expensed immediately.

Effective October 1, 1999, Lucent adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). As a result, certain costs of computer software developed or obtained for internal use have been capitalized as part of other assets and are amortized over a three-year period. The impact of adopting SOP 98-1 was a reduction of costs and operating expenses of $252 for the fiscal year ended September 30, 2000.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Inventories

Inventories are stated at the lower of cost (determined principally on a first-in, first-out basis) or market.

Contracts in Process

Contracts in process are stated at cost plus accrued profits less progress billings.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined using a combination of accelerated and straight-line methods over the estimated useful lives of the various asset classes. Useful lives for buildings and building improvements, furniture and fixtures and machinery and equipment principally range from 10 to 40 years, five to 10 years and two to 10 years, respectively.

Financial Instruments

Lucent uses various financial instruments, including foreign exchange forward contracts and interest rate swap agreements to manage risk to Lucent by generating cash flows which offset the cash flows of certain transactions in foreign currencies or underlying financial instruments in relation to their amount and timing. Lucent's derivative financial instruments are for purposes other than trading. Lucent's non-derivative financial instruments include letters of credit, commitments to extend credit and guarantees of debt. Lucent generally does not require collateral to support its financial instruments.

Goodwill and Other Acquired Intangibles

Goodwill and other acquired intangibles are amortized on a straight-line basis over the periods benefited, principally in the range of five to 10 years. Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as purchases.

Impairment of Goodwill and Other Long-Lived Assets

Goodwill and other long-lived assets are reviewed for impairment whenever events such as product discontinuance, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may not be recoverable. When such events occur, Lucent compares the carrying amount of the assets to undiscounted expected future cash flows. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on Lucent's weighted average cost of capital, which represents the blended after-tax costs of debt and equity.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

3. DISCONTINUED OPERATIONS

On September 30, 2000, Lucent completed the spin-off of Avaya in a tax-free distribution to its shareowners. Each Lucent shareowner received one share of Avaya common stock for every 12 shares of Lucent common stock held on the record date of September 20, 2000. Avaya represented a significant segment of Lucent's business.

Pursuant to Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Consolidated Financial Statements of Lucent have been reclassified to reflect the spin-off of Avaya. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of Avaya spun off have been segregated in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows. The net operating results, net assets and net cash flows of this business have been reported as "Discontinued Operations." The historical carrying amount of the net assets transferred to Avaya on the spin-off date has been recorded as a stock dividend of $1,009.

Following is summarized financial information for the discontinued operations:

	Years Ended September 30,		
	2000	1999	1998
Revenues	$7,607	$8,157	$7,741
Income from discontinued operations[1] (after applicable income taxes of $160, $256, and $347, respectively)	303	455	296
Loss on disposal of business[2] (after applicable income tax benefit of $238)	(765)	–	–
Income (loss) from discontinued operations	$ (462)	$ 455	$ 296

	September 30, 1999
Current assets	$3,043
Total assets	4,955
Current liabilities	2,758
Total liabilities	4,048
Net assets of discontinued operations	907

(1) Income from discontinued operations includes an allocation of Lucent's interest expense totaling $64, $91 and $112 for the fiscal years ended September 30, 2000, 1999 and 1998, respectively based upon the amount of debt being assumed by Avaya. Approximately $780 of commercial paper borrowings was assumed by Avaya as part of the spin-off transaction.

(2) The loss on disposal of Avaya recorded in the Company's results for the year ended September 30, 2000 reflects the costs directly associated with the spin-off and the net loss of Avaya between the measurement date and the spin date of September 30, 2000. The costs reflect those components of the Avaya reorganization plan, including a business restructuring charge and directly-related asset write-downs of $545 recorded during the year, along with transaction costs of $56 for the spin-off. Major components of this charge include $365 for employee separation and $101 for real estate consolidation.

Included in the net assets transferred to Avaya at September 30, 2000 were reserves of $499 associated with remaining actions under the reorganization plan, principally for employee separation and real estate consolidation. Avaya is responsible for completing the plan.

4. BUSINESS COMBINATIONS

Acquisitions

The following table presents information about acquisitions by Lucent in the fiscal years ended September 30, 2000, 1999 and 1998. All of these acquisitions were accounted for under the purchase method of accounting, and the acquired technology valuation included existing technology, purchased in-process research and development ("IPRD") and other intangibles. All IPRD charges were recorded in the quarter in which the transaction was completed. On a pro forma basis, if the following fiscal 2000 acquisitions had occurred on October 1, 1999, the amortization of goodwill and other acquired intangibles would have increased by approximately $931 for the fiscal year ended September 30, 2000.

							Amortization Period (in years)		
2000	Acquisition Date	Purchase Price	Goodwill	Existing Technology	Other Intangibles	Purchased IPRD (after-tax)	Goodwill	Existing Technology	Other Intangibles
Spring Tide[1]	9/00	$1,315 Stock & options	$1,075	$143	$ 14	$131	7	7	7
Chromatis[2]	6/00	4,756 Stock & options	4,223	n/a	186	428	7	n/a	2-7
Herrmann[3]	6/00	432 Stock & options	384	52	16	34	8	7	7
Ortel[4]	4/00	2,998 Stock & options	2,554	171	24	307	9	7.5	4-9
Agere[5]	4/00	377 Stock & options	303	n/a	n/a	94	7	n/a	n/a
DeltaKabel[6]	4/00	52 Cash	56	n/a	n/a	n/a	6	n/a	n/a
VTC Inc.[7]	3/00	104 Cash	46	31	7	7	7	5	7
1999									
Stratus[8]	10/98	$ 917 Stock & options	$ 0	$130	$ 4	$267*	n/a	10	3
Other[9]	various	217 Cash & notes	146	22	12	37	4-10	4-7	4-8
1998									
Yurie[10]	5/98	$1,056 Cash & options	$292	$ 40	n/a	$620	7	5	n/a
Livingston[11]	12/97	610 Stock & options	114	69	n/a	427	5	8	n/a
Other[12]	various	131 Cash	39	36	7	59	5-10	5-10	10

(1) Spring Tide Networks was a provider of network switching equipment.

(2) Chromatis Networks Inc. was a supplier of metropolitan optical networking systems.

(3) Herrmann Technology, Inc. was a supplier of devices for next-generation dense wavelength division multiplexing (DWDM) optical networks.

(4) Ortel Corporation was a developer of optoelectronic components for cable TV networks.

(5) Agere, Inc. was a developer of programmable network processor technology.

(6) DeltaKabel Telecom cv was a developer of cable modem and Internet protocol (IP) telephony solutions for the European market.

(7) VTC Inc. was a supplier of semiconductor components to computer hard disk drive manufacturers.

(8) Stratus Computer, Inc. was a manufacturer of fault-tolerant computer systems, acquired by Ascend.

(9) Other acquisitions include the Ethernet LAN business of Enable Semiconductor ("Enable Ethernet"); Sybarus Technologies; WaveAccess Ltd.; Quadritek Systems, Inc.; XNT Systems, Inc.; Quantum Telecom Solutions, Inc.; and InterCall Communications and Consulting, Inc.

(10) Yurie Systems, Inc. was a provider of ATM access technology and equipment for data, voice and video networking.

(11) Livingston Enterprises, Inc. was a global provider of equipment used by Internet service providers to connect their subscribers to the Internet.

(12) Other acquisitions include JNA Telecommunications Limited, MassMedia Communications, Inc. and Optimay GmbH.

n/a Not applicable.

** $24 of purchased in-process research and development was subsequently reversed in March 1999.*

In connection with the acquisitions of Spring Tide and Chromatis, certain key employees are entitled to receive additional Lucent common stock based on the achievement of specified milestones. The value of such stock, if distributed, will be recorded as compensation expense.

In connection with the acquisition of Herrmann, certain stockholders are entitled to receive additional Lucent common stock based on the achievement of specified milestones. If distributed, a portion will be recorded as compensation expense and a portion will be recorded as additional goodwill.

Included in the purchase price for the acquisitions was IPRD, which was a non-cash charge to earnings as this technology had not reached technological feasibility and had no future alternative use. The remaining purchase price was allocated to tangible assets and intangible assets, including goodwill and other acquired intangibles, less liabilities assumed.

The value allocated to IPRD was determined using an income approach that included an excess earnings analysis reflecting the appropriate cost of capital for the investment. Estimates of future cash flows related to the IPRD were made for each project based on Lucent's estimates of revenue, operating expenses and income taxes from the project. These estimates were consistent with historical pricing, margins and expense levels for similar products.

Revenues were estimated based on relevant market size and growth factors, expected industry trends, individual product sales cycles and the estimated life of each product's underlying technology. Estimated operating expenses, income taxes and charges for the use of contributory assets were deducted from estimated revenues to determine estimated after-tax cash flows for each project. Estimated operating expenses include cost of goods sold; selling, general and administrative expenses; and research and development expenses. The research and development expenses include estimated costs to maintain the products once they have been introduced into the market and generate revenues and costs to complete the in-process research and development.

The discount rates utilized to discount the projected cash flows were based on consideration of Lucent's weighted average cost of capital, as well as other factors including the useful life of each project, the anticipated profitability of each project, the uncertainty of technology advances that were known at the time and the stage of completion of each project.

Management is primarily responsible for estimating the fair value of the assets and liabilities acquired, and has conducted due diligence in determining the fair value. Management has made estimates and assumptions that affect the reported amounts of assets, liabilities and expenses resulting from such acquisitions. Actual results could differ from those amounts.

TeraBeam Corporation

On April 9, 2000, Lucent and TeraBeam Corporation entered into an agreement to develop TeraBeam's fiberless optical networking system that provides high-speed data networking between local and wide area networks. Under the agreement, Lucent paid cash and contributed research and development assets, intellectual property, and free-space optical products, valued in the aggregate at $450. Lucent owns 30 percent of the venture that will develop the fiberless optical networking system, which is accounted for under the equity method of accounting. Lucent will also be a preferred supplier of optical components, networking equipment and professional services to TeraBeam. In addition, under certain conditions, Lucent will have the right to purchase TeraBeam's equity interest in the venture. A total of $189 was allocated to goodwill and other acquired intangibles to be amortized over five years.

Ignitus Communications LLC

On April 4, 2000, Lucent acquired the remaining 44 percent of Ignitus Communications LLC, a start-up company that focuses on high-speed optical communications at the network edge, for approximately $33. Lucent previously owned 56 percent of the company.

SpecTran Corporation

On July 21, 1999, Lucent began its cash tender offer for the outstanding shares of SpecTran Corporation, a designer and manufacturer of specialty optical fiber and fiber-optic products. The tender offer expired on August 31, 1999, and Lucent thereafter accepted and paid for shares giving it a 61 percent interest in SpecTran. The acquisition was accounted for under the purchase method of accounting. On February 4, 2000, Lucent acquired the remaining shares of SpecTran, resulting in a total purchase price of approximately $68.

Pooling-of-Interests Mergers

The following table presents information about certain mergers by Lucent accounted for under the pooling-of-interests method of accounting in the fiscal years ended September 30, 2000 and 1999. As a result, Lucent's financial statements have been restated for all periods prior to the mergers to include the accounts and operations of those companies.

Acquisition	Merger Date	Total Shares of Common Stock Issued	Description of Business
2000			
Excel	11/99	22 million	Developer of programmable switches
INS[1]	10/99	49 million	Provider of network consulting, design and integration services
1999			
Ascend[2]	6/99	371 million	Developer, manufacturer and seller of wide area networking solutions
Kenan	2/99	26 million	Developer of third-party billing and customer care software

(1) INS previously had a June 30 fiscal year-end. In order to conform the fiscal year-ends for INS and Lucent, INS's results of operations and cash flows for the three months ended September 30, 1999, were not reflected in Lucent's financial statements for the first fiscal quarter of 2000. INS's revenue and net income for the three months ended September 30, 1999 were $100 and $11, respectively. The Consolidated Balance Sheet of Lucent at September 30, 2000, includes an adjustment to retained earnings to reflect the income recognized by INS for the three months ended September 30, 1999.

(2) Lucent assumed Ascend stock options equivalent to approximately 65 million shares of Lucent common stock. In connection with the merger, Lucent recorded a third fiscal quarter 1999 charge to operating expenses of approximately $79 (non-tax deductible) for merger-related costs, primarily fees for investment bankers, attorneys, accountants and financial printing. Ascend's historical revenue and net loss for the fiscal year ended September 30, 1998 were $1,478 and $20, respectively. For the nine months ended June 30, 1999, Ascend's historical revenue and net income of $1,610 and $66, respectively, are included in Lucent's historical revenues and income from continuing operations, respectively, for the year ended September 30, 1999. Intercompany transactions between Lucent and Ascend for the nine months ended June 30, 1999 of $138 and $86 have been eliminated from revenues and income from continuing operations, respectively, for the year ended September 30, 1999.

Lucent has also completed other pooling transactions. The historical operations of these entities were not material to Lucent's consolidated results of operations either on an individual or aggregate basis; therefore, prior periods have not been restated for these mergers.

5. RECENT PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on the recognition, presentation and disclosure of revenues in financial statements and requires adoption no later than the fourth quarter of fiscal 2001. The Company is currently evaluating the impact of SAB 101 and its related interpretations to determine the effect it will have on the Company's consolidated financial position and results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires the recognition of the fair value of all derivative instruments on the balance sheet. Subsequent to the issuance of SFAS 133, the FASB received many requests to clarify certain issues causing difficulties in implementation. In June 2000, the FASB issued SFAS 138, which responds to those requests by amending certain provisions of SFAS 133. These amendments include allowing foreign-currency denominated assets and liabilities to qualify for hedge accounting, permitting the offsetting of certain interentity foreign currency exposures that reduce the need for third-party derivatives and redefining the nature of interest rate risk to avoid sources of ineffectiveness. Lucent is adopting SFAS 133 and the corresponding amendments under SFAS 138 effective as of October 1, 2000. The impact of adopting SFAS 133, as amended by SFAS 138, is not significant.

6. SUPPLEMENTARY FINANCIAL INFORMATION

Supplementary Income Statement Information

	Years Ended September 30,		
INCLUDED IN COSTS AND OPERATING EXPENSES	2000	1999	1998
Amortization of software development costs	$ 396	$ 235	$ 210
Depreciation of property, plant and equipment	$1,370	$1,169	$ 882
INCLUDED IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Amortization of goodwill and other acquired intangibles	$ 551	$ 310	$ 105
OTHER INCOME – NET			
Interest income	$ 125	$ 133	$ 122
Minority interests in earnings of subsidiaries	(50)	(27)	(24)
Net equity losses from investments	(27)	(23)	(207)
(Loss) gain on foreign currency transactions	(12)	1	(51)
Net gain on sales and settlements of financial instruments	361	302	38
Gain on businesses sold	54	16	208
Miscellaneous – net	(85)	–	24
Other income – net	**$ 366**	**$ 402**	**$ 110**
DEDUCTED FROM INTEREST EXPENSE			
Capitalized interest	$ 20	$ 20	$ 17

Supplementary Balance Sheet Information

	September 30,	
INVENTORIES	2000	1999
Completed goods	$ 2,976	$ 2,374
Work in process and raw materials	2,701	1,866
Inventories	**$ 5,677**	**$ 4,240**

PROPERTY, PLANT AND EQUIPMENT – NET		
Land and improvements	$ 367	$ 328
Buildings and improvements	3,773	3,601
Machinery, electronic and other equipment	10,085	9,060
Total property, plant and equipment	14,225	12,989
Less: Accumulated depreciation	7,141	6,770
Property, plant and equipment – net	**$ 7,084**	**$ 6,219**

INCLUDED IN OTHER CURRENT LIABILITIES		
Advance billings, progress payments and customer deposits	$ 855	$ 719

Supplementary Cash Flow Information

	Years Ended September 30,		
	2000	1999	1998
Interest payments, net of amounts capitalized	$364	$316	$ 159
Income tax payments, net	$ 72	$774	$ 406
Acquisitions of businesses:			
Fair value of assets acquired, net of cash acquired	$165	$398	$1,748
Less: Fair value of liabilities assumed	9	130	911
Acquisitions of businesses, net of cash acquired	**$156**	**$268**	**$ 837**

On October 1, 1997, Lucent contributed its Consumer Products business to a new venture formed by Lucent and Philips Electronics N.V. in exchange for 40 percent ownership of Philips Consumer Communications ("PCC"). On October 22, 1998, Lucent and Philips announced their intention to end the PCC venture and agreed to regain control of their original businesses. The results of operations and net assets of the remaining businesses Lucent previously contributed to PCC have been consolidated as of October 1, 1998. However, for the years ended September 30, 1999 and 1998, the Consolidated Statements of Cash Flows exclude both the contribution and the regaining of Lucent's Consumer Products business.

For the year ended September 30, 1999, costs and operating expenses include a $236 charge primarily associated with asset impairments and integration-related charges related to the Ascend and Nexabit mergers.

7. EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding, plus all additional common shares that would have been outstanding if potentially dilutive securities or common stock equivalents had been issued.

The following table reconciles the number of shares used in the earnings per share calculations:

	Years Ended September 30,		
(Number of shares in millions)	2000	1999	1998
Common shares – basic	3,232.3	3,101.8	3,025.3
Effect of dilutive securities:			
Stock options	88.5	109.5	78.4
Other	5.1	7.2	6.9
Common shares – diluted	3,325.9	3,218.5	3,110.6
Options excluded from the computation of earnings per share – diluted since option exercise price was greater than the average market price of the common shares for the period	41.0	5.5	14.0

8. COMPREHENSIVE INCOME

Comprehensive income, which is displayed in the Consolidated Statements of Changes in Shareowners' Equity, represents net income plus the results of certain shareowners' equity changes not reflected in the Consolidated Statements of Income.

The after-tax components of accumulated other comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustment	Unrealized Holding Gains/ (Losses)	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income/ (Loss)
Beginning balance October 1, 1997	$(191)	$ 55	$(13)	$(149)
Current-period change	(89)	(37)	(8)	(134)
Ending balance, September 30, 1998	$(280)	$ 18	$(21)	$(283)
Current-period change	(33)	61	11	39
Ending balance, September 30, 1999	$(313)	$ 79	$(10)	$(244)
Current-period change	(185)	(4)	2	(187)
Amounts transferred to Avaya	64	–	2	66
Ending balance, September 30, 2000	**$(434)**	**$ 75**	**$ (6)**	**$(365)**

Foreign currency translation adjustments are not currently adjusted for income taxes since they relate to indefinite investments in non-U.S. subsidiaries.

9. BUSINESS RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of calendar year 1995, a pre-tax charge of $2,655 was recorded to cover restructuring costs of $2,467 and asset impairment and other charges of $188. The restructuring plans included the exit of certain businesses as well as consolidating and re-engineering numerous corporate and business unit operations.

Total deductions to Lucent's business restructuring reserves were $16 and $184 for the years ended September 30, 2000 and 1999, respectively. Included in these deductions were cash payments of $11 and $61 for the years ended September 30, 2000 and 1999, respectively, and non-cash related charges of $15 for the year ended September 30, 1999. The non-cash related charges were primarily related to assets for product lines and businesses that Lucent exited as part of its restructuring activities. The related costs were included in the 1995 restructuring plan. The assets did not benefit activities that were to continue, nor were they used to generate future revenues. The reserves were charged as the product lines and businesses were exited during 1999. In addition, during 1999 Lucent reversed $108 of business restructuring reserves primarily related to favorable experience in employee separations, as well as to other projects being completed at a cost lower than originally estimated for the year ended September 30, 1999. As of September 30, 1999, all restructuring plans were substantially completed.

10. INCOME TAXES

The following table presents the principal reasons for the difference between the effective tax rate on continuing operations and the U.S. federal statutory income tax rate:

	Years Ended September 30,		
	2000	1999	1998
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of federal income tax effect	1.7 %	2.3 %	3.1 %
Foreign earnings and dividends taxed at different rates	(1.1)%	(0.1)%	1.0 %
Research credits	(3.5)%	(2.5)%	(3.2)%
Acquisition-related costs[1]	14.2 %	3.9 %	25.9 %
Other differences – net	(2.3)%	(1.9)%	(1.9)%
Effective income tax rate	**44.0 %**	**36.7 %**	**59.9 %**
Effective income tax rate excluding acquisition-related costs[1]	29.8 %	32.8 %	34.0 %

(1) Includes non-tax deductible purchased in-process research and development, goodwill amortization and merger-related costs.

The following table presents the U.S. and non-U.S. components of income before income taxes and the provision for income taxes:

	Years Ended September 30,		
INCOME BEFORE INCOME TAXES	2000	1999	1998
U.S.	$2,349	$4,169	$1,689
Non-U.S.	654	609	231
Income before income taxes	**$3,003**	**$4,778**	**$1,920**
PROVISION FOR INCOME TAXES			
CURRENT			
Federal	$ 460	$ 476	$ 766
State and local	40	8	127
Non-U.S.	356	294	170
Sub-total	856	778	1,063
DEFERRED			
Federal	399	858	36
State and local	78	185	42
Non-U.S.	(11)	(69)	10
Sub-total	466	974	88
Provision for income taxes	**$1,322**	**$1,752**	**$1,151**

As of September 30, 2000, Lucent had tax credit carryforwards of $112 and federal, state and local, and non-U.S. net operating loss carryforwards of $138, all of which expire primarily after the year 2004. As of September 30, 2000, Lucent has recorded valuation allowances totaling $198 against these carryforwards primarily in certain foreign jurisdictions where recovery of these carryforwards is uncertain.

The components of deferred tax assets and liabilities are as follows:

	September 30,	
DEFERRED INCOME TAX ASSETS	2000	1999
Employee benefit obligations	$2,788	$2,572
Reserves and allowances	847	855
Net operating loss/credit carryforwards	250	198
Valuation allowance	(198)	(148)
Other	231	348
Total deferred tax assets	**$3,918**	**$3,825**
DEFERRED INCOME TAX LIABILITIES		
Employee benefit obligations	$2,698	$2,176
Property, plant and equipment	497	408
Other	824	639
Total deferred tax liabilities	**$4,019**	**$3,223**

Lucent has not provided for U.S. deferred income taxes or foreign withholding taxes on $3,802 of undistributed earnings of its non-U.S. subsidiaries as of September 30, 2000, since these earnings are intended to be reinvested indefinitely.

11. DEBT OBLIGATIONS

DEBT MATURING WITHIN ONE YEAR	September 30, 2000	1999
Commercial paper	$2,475	$ 667
Long-term debt	765	41
Secured borrowings and other	243	997
Total debt maturing within one year	**$3,483**	**$1,705**
Weighted Average Interest Rates		
Commercial paper	6.3%	5.0%
Long-term debt, secured borrowings and other	7.4%	9.6%

Lucent had revolving credit facilities at September 30, 2000 aggregating $4,731 (a portion of which is used to support Lucent's commercial paper program), $4,000 with domestic lenders and $731 with foreign lenders. The total credit facilities available at September 30, 2000 with domestic and foreign lenders were $4,000 and $455, respectively.

LONG-TERM DEBT	September 30, 2000	1999
6.90% notes due July 15, 2001	$ 750	$ 750
7.25% notes due July 15, 2006	750	750
5.50% notes due November 15, 2008	500	500
6.50% debentures due January 15, 2028	300	300
6.45% debentures due March 15, 2029	1,360	1,360
7.70% notes due May 19, 2010	20	–
8.00% notes due May 18, 2015	25	–
Long-term lease obligations	62	79
Secured borrowings and other (6.9% and 8.4% weighted average interest rates, respectively)	116	509
Less: Unamortized discount	42	45
Total long-term debt	3,841	4,203
Less: Amounts maturing within one year	765	41
Long-term debt	**$3,076**	**$4,162**

Lucent has an effective shelf registration statement for the issuance of debt securities up to $1,800, of which $1,755 remains available at September 30, 2000.

The following table shows the aggregate maturities, by year, of the $3,841 in total long-term debt obligations:

September 30, 2001	2002	2003	2004	2005	Later Years
$765	$22	$38	$28	$21	$2,967

In 1999, Lucent sold trade accounts receivable and notes receivable to unaffiliated financial institutions with and without recourse. Certain sales with recourse were accounted for as secured borrowings and amounted to $1,037 at September 30, 1999. As a result of these recourse transactions, these receivables remained in the Consolidated Balance Sheets and increased cash flows from financing activities in the Consolidated Statements of Cash Flows by $1,037 in the year ended September 30, 1999. These arrangements were terminated in the year ended September 30, 2000. In 2000, there were no sales of receivables accounted for as secured borrowings. See Note 16 for further discussion of sales of receivables.

12. EMPLOYEE BENEFIT PLANS

Pension and Postretirement Benefits

Lucent maintains defined benefit pension plans covering the majority of its employees and retirees, and postretirement benefit plans for retirees that include health care benefits and life insurance coverage. The following information summarizes activity in the pension and postretirement benefit plans for the entire Company, including discontinued operations:

	Pension Benefits September 30,		Postretirement Benefits September 30,	
CHANGE IN BENEFIT OBLIGATION	2000	1999	2000	1999
Benefit obligation at October 1	$ 27,401	$27,846	$ 8,604	$ 9,193
Service cost	478	509	67	80
Interest cost	1,915	1,671	601	537
Actuarial losses (gains)	370	(2,182)	33	(240)
Amendments	(1)	1,534	–	(359)
Benefits paid	(2,294)	(1,977)	(651)	(607)
Benefit obligation assumed by Avaya	(1,756)	–	(412)	–
Benefit obligation at September 30	**$ 26,113**	**$27,401**	**$ 8,242**	**$ 8,604**
CHANGE IN PLAN ASSETS				
Fair value of plan assets at October 1	$ 41,067	$36,191	$ 4,467	$ 3,959
Actual return on plan assets	9,791	7,114	654	776
Company contributions	19	14	8	29
Benefits paid	(2,294)	(1,977)	(651)	(607)
Assets transferred to Avaya	(2,984)	–	(255)	–
Other (including transfer of assets from pension to postretirement plans)	(337)	(275)	334	310
Fair value of plan assets at September 30	**$ 45,262**	**$41,067**	**$4,557**	**$ 4,467**
Funded (unfunded) status of the plan	$ 19,149	$13,666	$(3,685)	$(4,137)
Unrecognized prior service cost	2,086	2,583	49	121
Unrecognized transition asset	(322)	(645)	–	–
Unrecognized net gain	(14,499)	(9,466)	(1,208)	(1,014)
Net amount recognized	**$ 6,414**	**$ 6,138**	**$(4,844)**	**$(5,030)**
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid pension costs	$ 6,440	$ 5,459	$ –	$ –
Prepaid pension costs allocated to discontinued operations	–	716	–	–
Accrued benefit liability	(37)	(63)	(4,844)	(4,730)
Accrued benefit liability allocated to discontinued operations	–	–	–	(300)
Intangible asset	5	9	–	–
Accumulated other comprehensive income	6	17	–	–
Net amount recognized	**$ 6,414**	**$ 6,138**	**$(4,844)**	**$(5,030)**

Pension plan assets include $102 and $287 of Lucent common stock at September 30, 2000 and 1999, respectively. Postretirement plan assets include $3 and $20 of Lucent common stock at September 30, 2000 and 1999, respectively.

The asset and pension obligation amounts that were transferred to Avaya are subject to final adjustment. The final amounts to be transferred to Avaya are not expected to be materially different from the estimated amounts.

Components of Net Periodic Benefit Cost

	Years Ended September 30,		
PENSION COST	2000	1999	1998
Service cost	$ 478	$ 509	$ 331
Interest cost on projected benefit obligation	1,915	1,671	1,631
Expected return on plan assets	(3,229)	(2,957)	(2,384)
Amortization of unrecognized prior service costs	362	461	164
Amortization of transition asset	(300)	(300)	(300)
Amortization of net (gain) loss	(197)	2	–
Net pension credit	**$ (971)**	**$ (614)**	**$ (558)**
DISTRIBUTION OF NET PENSION CREDIT			
Continuing operations	$(1,085)	$ (740)	$ (647)
Discontinued operations	114	126	89
Net pension credit	**$ (971)**	**$ (614)**	**$ (558)**
POSTRETIREMENT COST			
Service cost	$ 67	$ 80	$ 63
Interest cost on accumulated benefit obligation	601	537	540
Expected return on plan assets	(338)	(308)	(263)
Amortization of unrecognized prior service costs	37	53	53
Amortization of net (gain) loss	(12)	6	3
Net postretirement benefit cost	**$ 355**	**$ 368**	**$ 396**
DISTRIBUTION OF NET POSTRETIREMENT BENEFIT COST			
Continuing operations	$ 306	$ 315	$ 351
Discontinued operations	49	53	45
Net postretirement benefit cost	**$ 355**	**$ 368**	**$ 396**
PENSION AND POSTRETIREMENT BENEFITS			
Weighted-average assumptions as of September 30			
Discount rate	7.5%	7.25%	6.0%
Expected return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase	4.5%	4.5%	4.5%

Effective October 1, 1998, Lucent changed its method for calculating the market-related value of plan assets used in determining the expected return-on-plan asset component of annual net pension and postretirement benefit costs. Under the previous accounting method, the calculation of the market-related value of plan assets included only interest and dividends immediately, while all other realized and unrealized gains and losses were amortized on a straight-line basis over a five-year period. The new method used to calculate market-related value includes immediately an amount based on Lucent's historical asset returns and amortizes the difference between that amount and the actual return on a straight-line basis over a five-year period. The new method is preferable under SFAS No. 87, "Employers' Accounting for Pensions," because it results in calculated plan asset values that are closer to current fair value, thereby lessening the accumulation of unrecognized gains and losses while still mitigating the effects of annual market value fluctuations.

The cumulative effect of this accounting change related to periods prior to fiscal year 1999 of $2,150 ($1,308 after-tax, or $0.42 and $0.41 earnings per basic and diluted share, respectively) is a one-time, non-cash credit to fiscal 1999 earnings. This accounting change also resulted in a reduction in benefit costs in the year ended September 30, 1999 that increased income by $427 ($260 after-tax, or $0.08 earnings per basic and diluted share) as compared with the previous accounting method. If the accounting change were applied retroactively for the year ended September 30, 1998, pro forma net income would be $1,306, earnings per share-basic would be $0.43 and earnings per share-diluted would be $0.42.

In 1999, Lucent changed its pension plan benefit for management, technical pay plan, and non-represented occupational employees hired on or after January 1, 1999, and certain U.S. employees of companies acquired since October 1, 1996, who are not participating currently in a defined benefit pension plan. These employees receive a different pension benefit, known as an account balance program, effective January 1, 2000. Expenses related to the account balance program are included in the previous pension cost table.

Lucent has several non-pension postretirement benefit plans. For postretirement health care benefit plans, Lucent assumed a 7.6% annual health care cost trend rate for 2001 through 2004, after which the trend rate would decline to 3.9%. The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1 Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 26	$ 24
Effect on postretirement benefit obligation	$353	$329

Savings Plans

Lucent's savings plans allow employees to contribute a portion of their compensation on a pre-tax and/or after-tax basis in accordance with specified guidelines. Lucent matches a percentage of the employee contributions up to certain limits. Savings plan expense amounted to $228, $318 and $317 for the years ended September 30, 2000, 1999 and 1998, respectively. Lucent savings plan expense charged to continuing operations was $185, $250 and $254 for the years ended September 30, 2000, 1999 and 1998, respectively.

Employee Stock Ownership Plan

Lucent's leveraged Employee Stock Ownership Plan ("ESOP") funds the employer contributions to the Long-Term Savings and Security Plan ("LTSSP") for non-management employees.

The ESOP obligation is reported as a reduction in shareowners' equity. As of September 30, 2000, the ESOP contained 12.8 million shares of Lucent's common stock. Of the 12.8 million shares, 11.0 million shares have been allocated under the ESOP and 1.8 million shares were unallocated. As of September 30, 2000, the unallocated shares had a fair value of $54.

13. STOCK COMPENSATION PLANS

Lucent has stock-based compensation plans under which outside directors and certain employees receive stock options and other equity-based awards. The plans provide for the grant of stock options, stock appreciation rights, performance awards, restricted stock awards and other stock unit awards.

Stock options generally are granted with an exercise price equal to 100% of the market value of a share of common stock on the date of grant, have two-to-10-year terms and vest within four years from the date of grant. Subject to customary antidilution adjustments and certain exceptions, the total number of shares of common stock authorized for option grants under the plans was 446 million shares at September 30, 2000.

In connection with certain of Lucent's acquisitions, outstanding stock options held by employees of acquired companies became exercisable, according to their terms, for Lucent common stock effective at the acquisition date. These options did not reduce the shares available for grant under any of Lucent's other option plans. For acquisitions accounted for as purchases, the fair value of these options was generally included as part of the purchase price. As of July 1, 2000, Lucent began recording deferred compensation related to unvested options held by employees of companies acquired in a purchase acquisition, in accordance with FASB Interpretation No. 44. Unamortized deferred compensation expense was $34 at September 30, 2000. The deferred expense calculation and future amortization is based on the graded vesting schedule of the awards.

Lucent established an Employee Stock Purchase Plan (the "ESPP") effective October 1, 1996. Under the terms of the ESPP, eligible employees may have up to 10% of eligible compensation deducted from their pay to purchase common stock through June 30, 2001. The per share purchase price is 85% of the average high and low per share trading price of common stock on the New York Stock Exchange on the last trading day of each month. The amount that may be offered pursuant to this plan is 200 million shares. In 2000, 1999 and 1998, 7.8 million, 7.5 million and 9.4 million shares, respectively, were purchased under the ESPP and the employee stock purchase plans of acquired companies, at a weighted average price of $46.75, $43.60 and $23.23, respectively.

Lucent has adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and, as permitted under SFAS 123, applies Accounting Principles Board Opinion No. 25 ("APB 25") and related interpretations in accounting for its plans. Compensation expense recorded under APB 25 was $49, $50 and $79 for the years ended September 30, 2000, 1999 and 1998, respectively. If Lucent had elected to adopt the optional recognition provisions of SFAS 123 for its stock option plans and the ESPP, net income and earnings per share would have been changed to the pro forma amounts indicated below:

	Years Ended September 30,		
NET INCOME	2000	1999	1998
As reported	$1,219	$4,789	$1,065
Pro forma	$ 452	$4,239	$ 770
EARNINGS PER SHARE – BASIC			
As reported	$ 0.38	$ 1.54	$ 0.35
Pro forma	$ 0.14	$ 1.37	$ 0.25
EARNINGS PER SHARE – DILUTED			
As reported	$ 0.37	$ 1.49	$ 0.34
Pro forma	$ 0.13	$ 1.27	$ 0.24

The fair value of stock options used to compute pro forma net income and earnings per share disclosures is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following assumptions:

WEIGHTED AVERAGE ASSUMPTIONS	2000	1999	1998
Dividend yield	0.23%	0.10%	0.17%
Expected volatility – Lucent	39.2%	33.8%	28.2%
– Acquisitions[1]	55.3%	58.2%	60.3%
Risk-free interest rate	6.5%	5.2%	5.3%
Expected holding period (in years)	2.9	3.7	4.2

(1) Pre-merger assumptions for companies acquired in a pooling-of-interests.

Presented below is a summary of the status of Lucent stock options and the related transactions for the years ended September 30, 2000, 1999 and 1998:

	Shares (in thousands)	Weighted Average Exercise Price Per Share
Options outstanding at October 1, 1997	**194,066**	**$11.85**
Granted/assumed[1] [2]	130,730	$27.46
Exercised	(41,722)	$ 9.33
Forfeited/expired	(15,941)	$19.85
Options outstanding at September 30, 1998	**267,133**	**$19.40**
Granted/assumed[1]	61,944	$47.68
Exercised	(30,951)	$12.20
Forfeited/expired	(11,834)	$23.16
Options outstanding at September 30, 1999	**286,292**	**$26.15**
Granted/assumed[1]	285,798	$47.95
Exercised	(74,963)	$15.38
Forfeited/expired	(38,815)	$41.56
Options outstanding at September 30, 2000	**458,312**	**$40.20**
Options outstanding reflecting spin-off adjustments[3]	**431,509**	**$39.34**

(1) Includes options converted in acquisitions.

(2) Includes options covering 32,355 shares of common stock granted under a broad-based employee plan at a weighted average exercise price of $37.34.

(3) Effective with the spin-off of Avaya on September 30, 2000, unvested Lucent stock options held by Avaya employees were converted into Avaya stock options. For remaining unexercised Lucent stock options, the number of Lucent stock options and the exercise price were adjusted to preserve the intrinsic value of the stock options that existed prior to the spin-off.

The weighted average fair value of Lucent stock options, calculated using the Black-Scholes option-pricing model, granted during the years ended September 30, 2000, 1999 and 1998 is $16.15, $16.65 and $11.87 per share, respectively.

The following table summarizes the status of stock options outstanding and exercisable at September 30, 2000 after considering the spin-off adjustments:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices Per Share	Shares (in thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Shares (in thousands)	Weighted Average Exercise Price Per Share
$ 0.02 to $ 11.14	65,014	5.8	$ 7.61	49,393	$ 9.16
$11.15 to $ 23.07	47,558	6.6	17.19	39,825	16.68
$23.08 to $ 41.70	61,080	7.9	34.52	11,904	31.00
$41.71 to $ 42.47	101,011	2.2	42.17	60	42.15
$42.48 to $ 58.60	49,474	9.0	52.57	3,513	51.73
$58.61 to $ 59.13	52,202	9.6	58.61	99	58.78
$59.14 to $101.73	55,170	9.2	65.89	2,987	64.59
Total	**431,509**		**$39.34**	**107,781**	**$17.34**

Other stock unit awards are granted under certain award plans. The following table presents the total number of shares of common stock represented by awards granted to employees for the years ended September 30, 2000, 1999 and 1998:

	Years Ended September 30,		
	2000	1999	1998
Other stock unit awards granted (in millions)	858	532	1,730
Weighted average market value of shares granted during the period	$59.23	$31.82	$22.23

14. OPERATING SEGMENTS

As described in Note 3, Lucent has reclassified the results of operations of Avaya as discontinued operations. This business was previously disclosed as a separate operating segment. The segment data included below has been restated to exclude amounts related to the spin-off of Avaya.

Lucent operates in the global telecommunications networking industry and has two reportable operating segments: Service Provider Networks ("SPN") and Microelectronics and Communications Technologies ("MCT"). SPN provides public networking systems, software and services to telecommunications service providers and public network operators around the world. MCT provides high-performance optoelectronic components and integrated circuits, power systems and optical fiber for applications in the communications and computing industries. MCT also includes Lucent's new ventures business.

The two reportable operating segments are strategic market units that offer distinct products and services. These segments were determined based on the customers and the markets that Lucent serves. Each market unit was managed separately as each operation requires different technologies and marketing strategies. Intersegment transactions that occur are based on current market prices, and all intersegment profit is eliminated in consolidation.

Performance measurement and resource allocation for the reportable operating segments are based on many factors. The primary financial measure used is operating income, exclusive of goodwill and other acquired intangibles amortization, and IPRD and other costs from business acquisitions (acquisition/integration-related costs).

Lucent employs shared-service concepts to realize economies of scale and efficient use of resources. The costs of shared services and other corporate center operations managed on a common basis are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies (see Note 2).

Reportable Segments

Year Ended September 30, 2000	SPN	MCT	Other and Corporate[1]	Consolidated Totals
External revenues	$26,509	$6,953	$ 351	$33,813
Intersegment revenues	328	1,440	(1,768)	–
Total revenues	**26,837**	**8,393**	**(1,417)**	**33,813**
Depreciation and amortization	959	553	806	2,318
Operating income (loss)	3,041	1,582	(1,638)	2,985
Assets	26,919	8,497	13,376	48,792
Capital expenditures	981	1,003	717	2,701

Year Ended September 30, 1999	SPN	MCT	Other and Corporate[1]	Consolidated Totals
External revenues	$24,833	$5,026	$ 758	$30,617
Intersegment revenues	230	1,297	(1,527)	–
Total revenues	**25,063**	**6,323**	**(769)**	**30,617**
Depreciation and amortization	677	499	404	1,580
Operating income (loss)	4,730	786	(822)	4,694
Assets	17,627	4,146	13,599	35,372
Capital expenditures	713	828	501	2,042

Year Ended September 30, 1998	SPN	MCT	Other and Corporate[1]	Consolidated Totals
External revenues	$20,116	$4,134	$ 117	$24,367
Intersegment revenues	215	1,044	(1,259)	–
Total revenues	**20,331**	**5,178**	**(1,142)**	**24,367**
Depreciation and amortization	631	371	226	1,228
Operating income (loss)	3,008	406	(1,461)	1,953
Assets	13,154	3,140	8,851	25,145
Capital expenditures	584	712	319	1,615

(1) The results of other smaller units and corporate operations are reported in Other and Corporate, including eliminations of internal business. Assets included in Other and Corporate consist principally of cash and cash equivalents, deferred income taxes, prepaid pension costs and other assets.

Reconciling Items

A reconciliation of the totals reported for the operating segments to income from continuing operations before provision for income taxes in the Consolidated Financial Statements is as follows:

	Years ended September 30,		
OPERATING INCOME	2000	1999	1998
Total reportable segments	$ 4,623	$ 5,516	$ 3,414
Acquisition/integration-related costs	(1,066)	(530)	(1,385)
Goodwill and other acquired intangibles amortization	(551)	(310)	(105)
Other and corporate	(21)	18	29
Operating income	**2,985**	**4,694**	**1,953**
Other income-net	366	402	110
Interest expense	(348)	(318)	(143)
Income from continuing operations before provision for income taxes	**$ 3,003**	**$ 4,778**	**$ 1,920**

Products and Services Revenues

The table below presents external revenues for groups of similar products and services:

	Years ended September 30,		
	2000	1999	1998
Wireless Products	$ 6,223	$ 5,511	$ 4,456
Core Networking Systems	19,018	18,309	14,962
NetCare Professional Services	1,247	1,107	656
Microelectronics	3,726	2,805	2,396
Other[1]	3,599	2,885	1,897
Totals	**$33,813**	**$30,617**	**$24,367**

(1) "Other" principally includes optical fiber, power systems and consumer products.

Geographic Information

	External Revenues[1] Years Ended September 30,			Long-Lived Assets[2] September 30,		
	2000	1999	1998	2000	1999	1998
United States	$22,337	$20,151	$17,428	$15,367	$5,575	$4,719
Non-U.S. countries	11,476	10,466	6,939	1,662	1,604	1,317
Totals	$33,813	$30,617	$24,367	$17,029	$7,179	$6,036

(1) Revenues are attributed to geographic areas based on the location of customers.

(2) Represents property, plant and equipment (net), and goodwill and other acquired intangibles.

Concentrations

Historically, Lucent has relied on a limited number of customers for a substantial portion of its total revenues. Revenues from Verizon accounted for approximately 13% of consolidated revenues in fiscal year 2000, principally in the SPN segment. Revenues from AT&T accounted for approximately 10%, 14% and 15% of consolidated revenues in the years 2000, 1999 and 1998, respectively, principally in the SPN segment. Lucent expects a significant portion of its future revenues to continue to be generated by a limited number of customers. The loss of any of these customers or any substantial reduction in orders by any of these customers could materially and adversely affect Lucent's operating results. Lucent does not have a concentration of available sources of supply materials, labor, services or other rights that, if eliminated suddenly, could impact its operations severely.

15. FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of financial instruments, including derivative financial instruments were as follows:

	September 30, 2000		September 30, 1999	
ASSETS	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative and off-balance-sheet instruments:				
Foreign exchange forward contracts/options	$ 31	$ 32	$ 17	$ 16
Letters of credit	–	2	–	2
LIABILITIES				
Long-term debt[1]	$3,029	$2,731	$4,083	$3,956
Derivative and off-balance-sheet instruments:				
Foreign exchange forward contracts/options	13	19	35	26

(1) Excluding long-term lease obligations of $47 at September 30, 2000 and $79 at September 30, 1999.

The following methods were used to estimate the fair value of each class of financial instruments:

Financial Instrument	Valuation Method
Long-term debt	Market quotes for instruments with similar terms and maturities
Foreign exchange forward contracts/options	Market quotes
Letters of credit	Fees paid to obtain the obligations

The carrying amounts of cash and cash equivalents, investments, receivables and debt maturing within one year contained in the Consolidated Balance Sheets approximate fair value.

Credit Risk and Market Risk

By their nature, all financial instruments involve risk, including credit risk for non-performance by counterparties. The contract or notional amounts of these instruments reflect the extent of involvement Lucent has in particular classes of financial instruments. The maximum potential loss may exceed any amounts recognized in the Consolidated Balance Sheets. However, Lucent's maximum exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and financial guarantees is limited to the amount drawn and outstanding on those instruments.

Lucent seeks to reduce credit risk on financial instruments by dealing only with financially secure counterparties. Exposure to credit risk is controlled through credit approvals, credit limits and continuous monitoring procedures and reserves for losses are established when deemed necessary. Lucent seeks to limit its exposure to credit risks in any single country or region.

All financial instruments inherently expose the holders to market risk, including changes in currency and interest rates. Lucent manages its exposure to these market risks through its regular operating and financing activities and when appropriate, through the use of derivative financial instruments.

Derivative Financial Instruments

Lucent conducts its business on a multinational basis in a wide variety of foreign currencies. Consequently, Lucent enters into various foreign exchange forward and option contracts to manage its exposure against adverse changes in the foreign exchange rates. The notional amounts for foreign exchange forward and option contracts represent the U.S. dollar equivalent of amounts exchanged. Generally, foreign exchange forward contracts are designated for firmly committed or forecast sales and purchases that are expected to occur in less than one year. Gains and losses on all hedged contracts for firmly committed transactions and option contracts for anticipated transactions are deferred in Other current assets and liabilities, are recognized in income when the transactions occur and are not material to the Consolidated Financial Statements at September 30, 2000 and 1999. All other gains and losses on foreign exchange forward contracts are recognized in Other income-net as the exchange rates change.

Lucent engages in foreign currency hedging activities to reduce the risk that changes in exchange rates will adversely affect the eventual net cash flows resulting from the sale of products to foreign customers and purchases from foreign suppliers. Hedge accounting treatment is appropriate for a derivative instrument when changes in the value of the derivative instrument are substantially equal to, but opposite to, changes in the value of the exposure being hedged. Lucent believes that it has achieved risk reduction and hedge effectiveness, because the gains and losses on its derivative instruments substantially offset the gains on the assets, liabilities and transactions being hedged. Hedge effectiveness is periodically measured by comparing the change in fair value of each hedged foreign currency exposure at the applicable market rate with the change in market value of the corresponding derivative instrument.

The following table summarizes the notional amounts of these derivative financial instruments in U.S. dollars. In 2000, these notional amounts principally represent contracts in Canadian dollars, Brazilian reals, Australian dollars, British pounds, Japanese yen and Euros. Notional amounts represent the face amount of the contractual arrangements and the basis on which U.S. dollars are to be exchanged and are not a measure of market or credit exposure.

	Notional Amounts September 30,	
	2000	1999
Foreign exchange forward contracts	$1,850	$1,778
Foreign exchange option contracts	$ 124	$ 251

Lucent may enter into certain interest rate swap agreements to manage its risk between fixed and variable interest rates and long-term and short-term maturity debt instruments. There were no material interest rate swap agreements in effect during 2000 and 1999.

Non-Derivative and Off-Balance-Sheet Instruments

Requests for providing commitments to extend credit and financial guarantees are reviewed and approved by senior management. Management regularly reviews all outstanding commitments, letters of credit and financial guarantees, and the results of these reviews are considered in assessing the adequacy of Lucent's reserve for possible credit and guarantee losses.

The following table presents Lucent's non-derivative and off-balance-sheet instruments for amounts committed but not drawn-down and the amounts drawn-down on such instruments. These instruments may expire without being drawn upon. Therefore, the amounts committed but not drawn-down do not necessarily represent future cash flows.

	Amounts Committed but Not Drawn-down September 30,		Amounts Drawn-down and Outstanding September 30,	
	2000	1999	2000	1999
Commitments to extend credit	$5,391	$5,543	$1,263	$1,565
Guarantees of debt	$ 677	$ 108	$ 771	$ 324

Commitments to Extend Credit

Commitments to extend credit to third parties are conditional agreements generally having fixed expiration or termination dates and specific interest rates and purposes. In certain situations, credit may not be available for draw down until certain conditions precedent are met.

Guarantees of Debt

From time to time, Lucent guarantees the financing for product purchases by customers and the debt of certain unconsolidated joint ventures. Requests for providing such guarantees are reviewed and approved by senior management. Certain financial guarantees are assigned to a third-party reinsurer.

Letters of Credit

Letters of credit are purchased guarantees that ensure Lucent's performance or payment to third parties in accordance with specified terms and conditions, which amounted to $917 and $910 as of September 30, 2000 and 1999, respectively.

16. SECURITIZATIONS

In September 2000, Lucent and a third-party financial institution arranged for the creation of a non-consolidated Special Purpose Trust (the "Trust") for the purpose of allowing Lucent from time to time to sell on a limited-recourse basis up to a maximum of $970 of customer finance loans and receivables (the "Loans") at any given point in time through a wholly owned bankruptcy-remote subsidiary, which in turn will sell the Loans to the Trust. Lucent has also agreed, in the case of foreign currency denominated Loans and Loans with a fixed interest rate, to indemnify the Trust for foreign exchange losses and losses due to movements in interest rates (if any) if hedging instruments have not been entered into for such Loans. Lucent will receive a fee from the Trust for either arranging hedging instruments or providing the indemnity. Lucent will continue to service, administer and collect the Loans on behalf of the Trust and receive a fee for performance of these services. Lucent will also receive a fee for referring Loans to the Trust that the Trust purchases from Lucent. At September 30, 2000, Lucent had sold $579 of Loans to the Trust. The impact of this transaction increased cash flows from operating activities by $575.

In September 1999, a subsidiary of Lucent sold approximately $625 of accounts receivable from one large non-U.S. customer to a non-consolidated qualified special purpose entity ("QSPE") which, in turn, sold an undivided ownership interest in these receivables to entities managed by an unaffiliated financial institution. Additionally, Lucent transferred a designated pool of qualified accounts receivable of approximately $700 to the QSPE as collateral for the initial sale. Lucent's retained interest in the QSPE's designated pool of qualified accounts receivable has been included in Receivables as of September 30, 1999. The impact of the above transaction on the 1999 financial statements reduced receivables and increased cash flows from operating activities in the Consolidated Statements of Cash Flows by $600. During December 1999, Lucent repurchased $408 of the $625 of accounts receivable, and the previously reported arrangement was terminated. In addition, Lucent established a new arrangement whereby its subsidiary sold $750 of accounts receivable (including the repurchased receivables described) to a consortium of banks with limited recourse. As a result of these transactions, receivables at September 30, 2000 were reduced by $342 and cash flows from operating activities were increased by $312 during fiscal 2000.

During the fourth fiscal quarter of 2000, approximately $550 of additional receivables from this customer were sold.

From time to time, Lucent may sell trade and note receivables with or without recourse and/or discounts in the normal course of business.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Lucent is subject to proceedings, lawsuits and other claims, including proceedings under laws and government regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at September 30, 2000, cannot be ascertained. While these matters could affect the operating results of any one quarter when resolved in future periods and while there can be no assurance with respect thereto, management believes that after final disposition, any monetary liability or financial impact to Lucent, from matters other than those described in the next paragraph, beyond that provided for at September 30, 2000 would not be material to the annual Consolidated Financial Statements.

In addition, Lucent and certain of its former officers are defendants in several purported shareholder class action lawsuits for alleged violations of federal securities laws. Specifically, the complaints allege, among other things, that beginning in late October 1999, Lucent and certain of its officers misrepresented Lucent's financial condition and failed to disclose material facts that would have an adverse impact on Lucent's future earnings and prospects for growth. These actions seek compensatory and other damages, and costs and expenses associated with the litigation. These actions are in the early stages and the Company is unable to determine their potential impact on the Consolidated Financial Statements. Lucent intends to defend these actions vigorously.

In connection with the formation of Lucent from certain units of AT&T Corp. and the associated assets and liabilities of those units and AT&T's distribution of its remaining interest in Lucent to its shareowners, Lucent, AT&T and NCR Corporation executed and delivered the Separation and Distribution Agreement, dated as of February 1, 1996, as amended and restated, and certain related agreements. The Separation and Distribution Agreement, among other things, provides that Lucent will indemnify AT&T and NCR for all liabilities relating to Lucent's business and operations and for all contingent liabilities relating to Lucent's business and operations or otherwise assigned to Lucent. In addition to contingent liabilities relating to the present or former business of Lucent, any contingent liabilities relating to AT&T's discontinued computer operations (other than those of NCR) were assigned to Lucent. The Separation and Distribution Agreement provides for the sharing of contingent liabilities not allocated to one of the parties, in the following propor-

tions: AT&T: 75%, Lucent: 22%, and NCR: 3%. The Separation and Distribution Agreement also provides that each party will share specified portions of contingent liabilities related to the business of any of the other parties that exceed specified levels.

In connection with the spin-off of Avaya, Lucent and Avaya executed and delivered a Contribution and Distribution Agreement which provides for indemnification by each company with respect to contingent liabilities primarily relating to their respective businesses or otherwise assigned to each, subject to certain sharing provisions. In the event the aggregate value of all amounts paid by each company, in respect of any single contingent liability or any set or group of related contingent liabilities, is in excess of $50 each company will share portions in excess of the threshold amount based on agreed-upon percentages. The Contribution and Distribution Agreement also provides for the sharing of certain contingent liabilities, specifically: (1) any contingent liabilities that are not primarily contingent liabilities of Lucent or contingent liabilities associated with the businesses attributed to Avaya; (2) certain specifically identified liabilities, including liabilities relating to terminated, divested or discontinued businesses or operations; and (3) shared contingent liabilities within the meaning of the Separation and Distribution Agreement with AT&T Corp.

Environmental Matters

Lucent's current and historical operations are subject to a wide range of environmental protection laws. In the United States, these laws often require parties to fund remedial action regardless of fault. Lucent has remedial and investigatory activities under way at numerous current and former facilities. In addition, Lucent was named a successor to AT&T as a potentially responsible party ("PRP") at numerous "Superfund" sites pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") or comparable state statutes. Under the Separation and Distribution Agreement, Lucent is responsible for all liabilities primarily resulting from or relating to the operation of Lucent's business as conducted at any time prior to or after the Separation including related businesses discontinued or disposed of prior to the Separation, and Lucent's assets including, without limitation, those associated with these sites. In addition, under such Separation and Distribution Agreement, Lucent is required to pay a portion of contingent liabilities paid out in excess of certain amounts by AT&T and NCR, including environmental liabilities.

It is often difficult to estimate the future impact of environmental matters, including potential liabilities. Lucent records an environmental reserve when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. This practice is followed whether the claims are asserted or unasserted. Management expects that the amounts reserved will be paid out over the periods of remediation for the applicable sites, which typically range from five to 30 years. Reserves for estimated losses from environmental remediation are, depending on the site, based primarily on internal or third-party environmental studies and estimates as to the number, participation level and financial viability of any other PRPs, the extent of the contamination and the nature of required remedial actions. Accruals are adjusted as further information develops or circumstances change. The amounts provided for in Lucent's consolidated financial statements for environmental reserves are the gross undiscounted amounts of such reserves, without deductions for insurance or third-party indemnity claims. In those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts are reflected as receivables in the financial statements. Although Lucent believes that its reserves are adequate, there can be no assurance that the amount of capital expenditures and other expenses which will be required relating to remedial actions and compliance with applicable environmental laws will not exceed the amounts reflected in Lucent's reserves or will not have a material adverse effect on Lucent's financial condition, results of operations or cash flows. Any possible loss or range of possible loss that may be incurred in excess of that provided for at September 30, 2000 cannot be estimated.

Lease Commitments

Lucent leases land, buildings and equipment under agreements that expire in various years through 2020. Rental expense under operating leases was $522, $406 and $336 for the years ended September 30, 2000, 1999 and 1998, respectively. The table below shows the future minimum lease payments due under non-cancelable leases at September 30, 2000. Such payments total $1,463 for operating leases. The net present value of such payments on capital leases was $62 after deducting imputed interest of $10.

	Years Ended September 30,					
	2001	2002	2003	2004	2005	Later Years
Operating leases	$298	$255	$202	$150	$109	$449
Capital leases	16	21	21	13	1	–
Minimum lease payments	314	276	223	163	110	449

18. SUBSEQUENT EVENTS

On November 13, 2000, Lucent entered into an agreement to sell its power systems business to Tyco International Ltd., a diversified manufacturing and service company, for $2,500 in cash. The sale, which is subject to regulatory approval and other customary closing conditions, is expected to close by December 31, 2000.

19. QUARTERLY INFORMATION (UNAUDITED)

YEAR ENDED SEPTEMBER 30, 2000	First	Second	Third	Fourth	Total
	Fiscal Year Quarters				
Revenues	$8,065	$8,355	$8,713	$8,680	**$ 33,813**
Gross margin	3,758	3,482	3,790	3,244	**14,274**
Income (loss) from continuing operations	1,124[1]	622[2]	(14)[3]	(51)[4]	**1,681**
Income (loss) from discontinued operations	125	133	(287)	(433)	**(462)**
Net income (loss)	$1,249	$ 755	$ (301)	$ (484)	**$ 1,219**
Earnings (loss) per common share – basic:					
Income (loss) from continuing operations	$ 0.36[1]	$ 0.20[2]	$ (0.00)[3]	$ (0.01)[4]	**$ 0.52**
Income (loss) from discontinued operations	0.04	0.04	(0.09)	(0.13)	**(0.14)**
Net income (loss)	$ 0.40	$ 0.24	$ (0.09)	$ (0.14)	**$ 0.38**
Earnings (loss) per common share – diluted:					
Income (loss) from continuing operations	$ 0.34[1]	$ 0.19[2]	$ (0.00)[3][5]	$ (0.01)[4][5]	**$ 0.51**
Income (loss) from discontinued operations	0.04	0.04	(0.09)[5]	(0.13)[5]	**(0.14)**
Net income (loss)	$ 0.38	$ 0.23	$ (0.09)[5]	$ (0.14)[5]	**$ 0.37**
Dividends per share	$ 0.04	$ 0.00	$ 0.02	$ 0.02	**$ 0.08**
Stock price:[10]					
High	84 3/16	77 1/2	65 15/16	67 3/16	**84 3/16**
Low	55 1/16	49 13/16	51 1/16	28 1/16	**28 1/16**
Quarter-end close	75	62	58 3/4	30 1/2	**30 1/2**

YEAR ENDED SEPTEMBER 30, 1999					
Revenues	$8,036	$6,831	$7,403	$8,347	$30,617
Gross margin	4,378	3,347	3,573	3,714	15,012
Income from continuing operations	1,194[6]	511[7]	622[8]	699[9]	3,026
Income from discontinued operations	42	24	141	248	455
Income before cumulative effect of accounting change	1,236	535	763	947	3,481
Cumulative effect of accounting change	1,308	–	–	–	1,308
Net income	$2,544	$ 535	$ 763	$ 947	$ 4,789
Earnings per common share – basic:					
Income from continuing operations	$ 0.39[6]	$ 0.16[7]	$ 0.20[8]	$ 0.22[9]	$ 0.97
Income from discontinued operations	0.01	0.01	0.05	0.08	0.15
Cumulative effect of accounting change	0.43	–	–	–	0.42
Net income	$ 0.83	$ 0.17	$ 0.25	$ 0.30	$ 1.54
Earnings per common share – diluted:					
Income from continuing operations	$ 0.38[6]	$ 0.16[7]	$ 0.19[8]	$ 0.21[9]	$ 0.94
Income from discontinued operations	0.01	0.01	0.05	0.08	0.14
Cumulative effect of accounting change	0.41	–	–	–	0.41
Net income	$ 0.80	$ 0.17	$ 0.24	$ 0.29	$ 1.49
Dividends per share	$ 0.04	$ 0.00	$ 0.02	$ 0.02	$ 0.08
Stock price:[10]					
High	56 15/16	60	68 11/16	79 3/4	79 3/4
Low	26 23/32	47	51 7/8	60	26 23/32
Quarter-end close	54 31/32	54	67 7/16	64 7/8	64 7/8

(1) Includes an after-tax gain of $115 ($189 pre-tax) associated with the sale of an equity investment and an after-tax charge of $40 ($61 pre-tax) primarily associated with the mergers with INS, Excel and Xedia.

(2) Includes an after-tax charge of $7 ($11 pre-tax) of IPRD related to the acquisition of VTC.

(3) Includes an after-tax charge of $863 (non-tax impacting) of IPRD related to the acquisitions of Chromatis, Herrmann, Ortel and Agere.

(4) Includes an after-tax charge of $131 (non-tax impacting) of IPRD related to the acquisition of Spring Tide.

(5) As a result of the loss reported from continuing operations, potentially dilutive securities have been excluded from the calculation of diluted earnings (loss) per share because their effect would be anti-dilutive.

(6) Includes an after-tax charge of $287 ($295 pre-tax) of IPRD related to the acquisitions of Quadritek, Stratus, XNT and Quantum.

(7) Includes an after-tax charge of $15 ($18 pre-tax) of IPRD related to the acquisitions of WaveAccess, Enable Ethernet and Sybarus. In addition, $24 of Stratus IPRD was reversed. As a result of the merger with Vital Signs, Lucent recorded a charge to operating expenses of $7 (non-tax impacting) for direct merger related costs.

(8) Includes an after-tax charge of $81 (non-tax impacting) primarily associated with the mergers with Ascend and RASCom.

(9) Includes pre-tax costs of $258 ($191 after-tax) primarily associated with asset impairments, integration-related charges and merger expenses related to the mergers with Ascend and Nexabit. These costs principally include the write-off of Livingston goodwill and other acquired intangibles and certain product and system integration and direct merger expenses related to Nexabit. Additionally, as a result of the 1999 acquisition of InterCall, Lucent recorded an after-tax charge of $2 ($3 pre-tax) for IPRD and an after-tax gain of $167 ($274 pre-tax) associated with the sale of an equity investment.

(10) Obtained from the Composite Tape. Stock prices have been restated to reflect the two-for-one splits of the Company's common stock effective April 1, 1998, and April 1, 1999.