3rd Quarter 2003 Earnings Teleconference

July 23, 2003



Lucent Technologies
Bell Labs Innovations

3rd Quarter 2003 Earnings Teleconference

Introduction



MaryAnn Niebojeski

Investor Relations Vice President

Q3 2003 Earnings Teleconference

Forward-Looking Statement Disclosure

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This presentation includes some forward-looking statements about our expectations for our future performance. Actual results could differ materially from those suggested by our comments today. Additional information about factors that could affect future results are addressed in our SEC filings, including our Form 10-K, 10-Q, and 8-Ks. A summary is included at the end of this presentation.

Any information contained herein should be read in conjunction with the July 23, 2003 Q3 earnings press release with accompanying financial tables.

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Opening Remarks



Pat Russo

Chairman & Chief Executive Officer

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Financial Review



Frank D'Amelio

Executive Vice President & Chief Financial Officer

Q3 2003 Financial Review
Quarterly Results Highlights

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($ millions)	Q303	Q203		Q3 vs. Q2
Revenues	1,965	2,403	↓	-18.2%
Gross Margin %	29.2%	31.7%	↓	(2.5 pts)
Operating Expenses	842	742	↑	100
Operating Income (Loss)	(269)	20	↓	(289)
EPS	($0.07)	($0.14)	↑	$0.07

Arrows indicate direction of sequential change

Q3 2003 Financial Review
Significant Impact Items

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($ millions)	Q303	Per Share Impact	Q203	Per Share Impact
Legal Settlements	(33)	(0.01)	(415)	(0.11)
Swap Conversion Cost *	(14)	(0.00)	(253)	(0.06)
Income Tax Benefit	78	0.02	237	0.06
Restructuring (Charges) Reversals, Net **	(14)	(0.00)	142	0.04
Impairment of Goodwill	(35)	(0.01)	-	-
Amortization of Acquired Intangibles	(5)	(0.00)	(5)	(0.00)
Business Disposition Reserve	10	0.00	42	0.01
Total	(13)	(0.00)	(252)	(0.06)
Weighted Average Common Shares	4,121		3,945	

* In Q303 and Q203, ($20M) and ($166M), respectively, excluded from Net Loss and included only in EPS calculation; $6M and ($87M), respectively, included in Other Income.

** In Q303 and Q203, Gross Margin impacted by ($1M) and $11M, respectively; Operating Expenses impacted by ($13M) and $131M, respectively.

Q3 2003 Financial Review
Segment Results

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($ millions)	Q303	Q203	Q3 vs. Q2
Mobility Solutions			
Revenues	826	1,281	(455)
Segment Income (Loss)	(56)	214	(270)
Integrated Network Solutions			
Revenues	1,059	1,035	24
Segment Income (Loss)	(47)	(86)	39
Services Revenues	439	425	14

Q3 2003 Financial Review
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Q3 2003 Financial Review
Operating Expenses

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($ millions)	Q303	Q203	Q3 vs. Q2
Bad Debt & Customer Financing	(32)	24	(56)
Amortization of Intangible Assets	5	5	-
All Other SG&A	439	462	(23)
Total SG&A	412	491	(79)
R&D	382	382	-
Impairment of Goodwill	35	-	35
Restructuring Charges (Reversals), Net	13	(131)	144
Total	842	742	100

Q3 2003 Financial Review
Cash Flow

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($ millions)	Q303	Q203	Q3 vs. Q2
Net Loss	(254)	(351)	97
Changes in Other Non-cash Items	31	178	(147)
Changes in Working Capital	286	37	249
Changes in Other Assets and Liabilities	(121)	(157)	36
Cash Used in Operating Activities	(58)	(293)	235
Capital Spending	(38)	(33)	(5)
Restructuring - Cash Component	130	192	(62)
Cash Flow (incl Capex, excl Restructuring)	34	(134)	168

Unusual Items:	Q303	Q203
SPARKS Lawsuit Escrow Release	-	80
Federal Tax Refunds	167	22

Q3 2003 Financial Review
Cash & Debt Summary

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($ millions)	Q303	Q203	Q3 vs. Q2
Cash and Short-term Investments	4,928	3,439	1,489
Short-term Debt:			
Special Purpose Trust	101	-	101
Mortgage	279	33	246
Other	236	238	(2)
Long-term Debt:			
Trust Preferred	1,152	1,152	-
Special Purpose Trust	170	-	170
Mortgage	-	254	(254)
Convertible Senior Debt	1,631	-	1,631
Other	2,886	2,916	(30)
Total Debt	6,455	4,593	1,862
Convertible Preferred - Net of Fees	933	960	(27)
Total Debt & Convertible Preferred	7,388	5,553	1,835

Q3 2003 Financial Review
Convertible Debt Offering

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Senior Convertible Debt offering of $1.63B

Series A

- Amount: $750M
- Coupon: 2.75%
- Maturity: 2023
- Put Option: June 2010, 2015, 2020
- Call Option: beginning June 2010
- Conversion Premium: 48%
- Conversion Price: $3.34

Series B

- Amount: $881M
- Coupon: 2.75%
- Maturity: 2025
- Put Option: June 2013, 2019
- Call Option: beginning June 2013
- Conversion Premium: 38%
- Conversion Price: $3.12

Q3 2003 Financial Review
Preferred Stock & Debt Exchanges

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($ millions)	Q303	Q203	Q103	Q402	Total
8.00% Convertible Preferred	30	345	392	175	942
7.75% Trust Preferred	-	380	218	-	598
Debt Obligations	35	52	-	-	87
Total	65	777	610	175	1,627
Common Shares Exchanged (in millions)					621

Note: Results in approximately $125M reduction in annual interest and dividend requirements.

Q3 2003 Financial Review
Cash & Debt Summary

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Other	2,886	2,916	(30)
Total Debt	6,455	4,593	1,862
Convertible Preferred - Net of Fees	933	960	(27)
Total Debt & Convertible Preferred	7,388	5,553	1,835

Q3 2003 Financial Review

Vendor Finance Review

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($ millions)	Q303	Q203	Q3 vs. Q2
Drawn Commitments	573	586	(13)
Available But Not Drawn	58	57	1
Not Available	1	1	-
Total	632	644	(12)
Reserves	505	513	(8)

Q3 2003 Financial Review

Cash Walk – Q403 Estimate

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($ billions)	Q4 Estimate
Cash & S-T Investments - June 30, 2003	4.9
Business Restructuring	(0.1)
Cash used in Ops (incl. CapEx)	(0.2 - 0.4)
Interest	(0.1)
Debt Repayments	(0.3)
Projected Cash & S-T Investments - September 30, 2003	4.0 - 4.2 *

* Any use of cash for additional repayment or repurchase of debt or convertible securities above the $300M indicated above will reduce projected cash balance dollar for dollar.

Q3 2003 Financial Review
Key Takeaways

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- **Financial results**
  - Revenue decreased 18% to $1.96 billion
  - Gross margin down 3 points to 29%
  - Loss per share reduced to ($0.07)
- **Continued operating and capital structure progress**
  - Staff reduction on plan; about 36,500 employees at June 30, continue to target 35,000 by September 30
  - Raised $1.6 billion in senior convertible debt offering, secured new credit facilities, and plan to pre-pay most of our mortgage obligation
- **Outlook**
  - Working to reduce quarterly EPS breakeven
  - Targeting return to profitability during fiscal 2004
- **Sufficient liquidity to fund operations and restructuring**
  - Cash at the end of fiscal 2003 projected at more than $4.0 billion; any additional use of cash for repayment or repurchase of debt or convertible securities would reduce this amount dollar for dollar

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Executive Review



Pat Russo

Chairman & Chief Executive Officer

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Q&A Session

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Closing Remarks



Pat Russo

Chairman & Chief Executive Officer

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Forward-Looking Statement Disclosure

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This presentation contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, the industries in which we operate, our beliefs and our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of us. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. These risks and uncertainties include: the failure of the telecommunications market to improve or improve at the pace we anticipate; continued net losses may reduce or impair our legally available surplus; our ability to realize the benefits we expect from our strategic direction and restructuring program; our ability to secure additional sources of funds on reasonable terms; our credit ratings; our ability to compete effectively; our reliance on a limited number of key customers; our exposure to the credit risk of our customers as a result of our vendor financing arrangements and accounts receivable; our reliance on third parties to manufacture most of our products; the cost and other risks inherent in our long-term sales agreements; our product portfolio and ability to keep pace with technological advances in our industry; the complexity of our products; our ability to retain and recruit key personnel; existing and future litigation; our ability to protect our intellectual property rights and the expenses we may incur in defending such rights; changes in environmental health and safety law; changes to existing regulations or technical standards; the social, political and economic risks of our foreign operations; and the costs and risks associated with our pension and postretirement benefit obligations. For a further list and description of such risks and uncertainties, see the reports filed by Lucent with the Securities and Exchange Commission. Except as otherwise required under federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.