NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

1. BACKGROUND AND BASIS OF PRESENTATION

Background

Lucent Technologies Inc. ("Lucent" or the "Company") was formed from the systems and technology units of AT&T Corp. ("AT&T") and the associated assets and liabilities of those units, including Bell Laboratories (the "Separation"). Lucent was incorporated on November 29, 1995 with 1,000 shares of common stock ("Common Stock"), authorized and outstanding, all of which were owned by AT&T. On April 2, 1996, AT&T obtained an additional 524,623,894 shares of Common Stock and on April 10, 1996, Lucent issued 112,037,037 shares in an Initial Public Offering. On September 30, 1996, AT&T distributed to its shareowners all of its remaining interest in Lucent (the "Distribution").

Basis of Presentation

The consolidated financial statements for the nine months ended September 30, 1996 and the year ended December 31, 1995 reflect the results of operations, changes in shareowners' equity and cash flows, and the financial position of the business that was transferred to Lucent from AT&T as if Lucent were a separate entity. The consolidated financial statements have been prepared using the historical basis of the assets and liabilities and historical results of operations of these businesses. Additionally, the aforementioned financial statements include an allocation of certain AT&T corporate headquarters assets, liabilities and expenses related to the businesses that were transferred to Lucent from AT&T. Management believes the allocations reflected in the consolidated financial statements are reasonable. The aforementioned financial statements may not necessarily reflect the consolidated results of Lucent's operations, financial position, changes in shareowners' equity or cash flows in the future or what they would have been had Lucent been a separate, stand-alone company during such periods.

Acquisition

In September 1997, Lucent completed the purchase of all outstanding stock of Octel Communications Corporation ("Octel"), a provider of voice, fax and electronic messaging technologies, at an aggregate purchase price of approximately $1,819 ($1,703 in cash). Lucent paid for the Octel shares from its general funds which consist of cash from operations and proceeds from short-term borrowings. The acquisition was accounted for using the purchase method of accounting. The fair market value of Octel's assets and liabilities, which was independently determined, has been included in the statement of financial position as of September 30, 1997. The purchase price was allocated as follows:

Fair value of assets acquired	$ 664
Fair value of liabilities assumed	(157)
Goodwill	181
Acquired existing technology	186
Purchased in-process research and development costs	945
Total	$1,819

Acquired technology valuation included both existing technology and that represented by in-process research and development. The valuation was made by applying the income forecast method which considers the present value of cash flows by product lines.

The fair value of existing technology products was valued at $186 and is being amortized over five years. In-process research and development was valued at $945 and was charged to expense since this technology had not reached technological feasibility and has no alternative use. This technology will require varying additional development, coding and testing efforts over the next one and a half years before assessment of technological feasibility can be determined.

Goodwill is being amortized over seven years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Use of Estimates

The preparation of financial statements 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 revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when account-

ing for long-term contracts, allowance for uncollectible accounts receivable, inventory obsolescence, product warranty, depreciation, employee benefits, taxes, restructuring reserves and contingencies, among others.

Earnings Per Common Share
Earnings per common share was calculated by dividing the net income by the weighted average shares of common stock and common stock equivalents outstanding during the periods. Included in the calculation of the weighted average shares outstanding is the retroactive recognition to January 1, 1995 of the 524,624,894 shares owned by AT&T.

Foreign Currency Translation
For operations outside the United States that prepare financial statements in currencies other than the United States dollar, results from 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 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 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 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 upon changes in facts. Any losses on contracts are recognized immediately.

Research and 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 upon 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.

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 valued at cost plus accrued profits less progress billings.

Property, Plant and Equipment
Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is determined using primarily the unit and group methods. The unit method is used for manufacturing and laboratory equipment and large computer systems. The group method is used for other depreciable assets. When assets that were depreciated using the unit method are sold or retired, the gains or losses are included in operating results. When assets that were depreciated using the group method are sold or retired, the original cost is deducted from the appropriate account and accumulated depreciation. Any proceeds are applied against accumulated depreciation.

Accelerated depreciation is used for certain high technology computer processing equipment. All other facilities and equipment are depreciated on a straight-line basis over their estimated useful lives.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Goodwill
Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Goodwill is amortized on a straight-line basis over the periods benefited, principally in the range of 5 to 15 years. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Reclassification

Certain prior year amounts have been reclassified to conform with the 1997 presentation.

3. CHANGES IN ACCOUNTING POLICIES

In February 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 simplifies the standards for computing earnings per share and is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. The adoption of SFAS 128 is not expected to have a material impact on Lucent's previously reported earnings per share.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in the financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. Lucent is in the process of determining its preferred format. The adoption of SFAS No. 130 will have no impact on Lucent's consolidated results of operations, financial position or cash flows.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997. Financial statement disclosures for prior periods are required to be restated. Lucent is in the process of evaluating the disclosure requirements. The adoption of SFAS No. 131 will have no impact on Lucent's consolidated results of operations, financial position or cash flows.

4. SUPPLEMENTARY FINANCIAL INFORMATION

Supplementary Income Statement Information

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
INCLUDED IN COSTS			
Amortization of software development costs	$ 380	$218	$ 312
INCLUDED IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Amortization of goodwill	$ 32	$ 25	$ 40
INCLUDED IN COSTS AND OPERATING EXPENSES			
Depreciation and amortization of property, plant and equipment	$1,008	$674	$1,109
OTHER INCOME			
Interest income	$ 132	$ 71	$ 44
Minority interests in earnings of subsidiaries	(35)	(21)	(20)
Net equity losses from investments	(64)	(26)	(25)
Increase in cash surrender value of life insurance	54	35	40
Loss on foreign currency transactions	(12)	(4)	(26)
Miscellaneous–net	66	41	151
Total other income–net	$ 141	$ 96	$ 164
DEDUCTED FROM INTEREST EXPENSE			
Capitalized interest	$ 14	$ 14	$ 14

For the period ended September 30, 1997, research and development costs include a $127 write-down of special purpose Bell Labs assets no longer being used.

Supplementary Balance Sheet Information

	September 30, 1997	September 30, 1996
INVENTORIES		
Completed goods	$ 1,611	$ 1,837
Work in process and raw materials	1,315	1,451
Inventories	$ 2,926	$ 3,288
PROPERTY, PLANT AND EQUIPMENT–NET		
Land and improvements	$ 299	$ 275
Buildings and improvements	2,852	2,875
Machinery, electronic and other equipment	8,403	7,870
Total property, plant and equipment	11,554	11,020
Less: Accumulated depreciation and amortization	(6,407)	(6,333)
Property, plant and equipment–net	$ 5,147	$ 4,687
OTHER CURRENT LIABILITIES		
Advance billings and customer deposits	$ 844	$ 1,202

Supplementary Cash Flow Information

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
Interest payments, net of amounts capitalized	$307	$209	$303
Income tax payments	$781	$142	$224

For information related to the acquisition of Octel, see Note 1.

In addition, the statement of cash flows for the nine-month period ended September 30, 1996 excludes $2,000 of customer accounts receivable retained by AT&T as well as net asset transfers of $239 received from AT&T. These transactions have not been reflected on the consolidated statement of cash flows because they were noncash events accounted for as changes in paid-in capital.

5. BUSINESS RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of calendar year 1995, a pretax charge of $2,801 was recorded to cover restructuring costs of $2,613 and asset impairment and other charges of $188. The restructuring plans included restructuring Lucent's Consumer Products business, including closing all of the Company-owned retail Phone Center Stores; consolidating and reengineering numerous corporate and business unit operations; and selling the Microelectronics interconnect and Paradyne businesses.

The 1995 business restructuring charge of $2,613 included restructuring liabilities of $1,774, asset impairments of $497 and $342 of benefit plan losses. Benefit plan losses were related to pension and other employee benefit plans and primarily represented losses in 1995 from the actuarial changes that otherwise might have been amortized over future periods.

The pretax total charge for restructuring, impairments and other charges of $2,801 for 1995 was recorded as $892 of costs, $1,645 of selling, general and administrative expenses, and $264 of research and development expenses. The charges included $1,509 for employee separations; $627 for asset write-downs; $202 for closing, selling and consolidating facilities; and $463 for other items. The total charges reduced net income by $1,847.

The restructuring charge of $2,613 incorporated the separation costs, both voluntary and involuntary, for nearly 22,000 employees. As of September 30, 1997, the workforce has been reduced by approximately 17,900 positions due to business restructuring. In addition, approximately 1,000 employees left Lucent's workforce as part of the sale of Paradyne in 1996. Actual experience in employee separations, combined with redeploying employees into other areas of the business, has resulted in lower separation costs than originally anticipated. Lucent anticipates that approximately 90% of the total expected reductions in positions will be complete by September 1998.

The following table displays a rollforward of the liabilities for business restructuring from December 31, 1995 to September 30, 1997:

		1996			
Type of Cost	December 31, 1995 Balance	Additions	Other	Usage	September 30, 1996 Balance
Employee Separation	$1,219	$ –	$ (81)	$(372)	$ 766
Facility Closing	272	–	(35)	(62)	175
Other	416	–	18	(86)	348
Total	$1,907	$ –	$ (98)	$(520)	$ 1,289

		1997			
Type of Cost	September 30, 1996 Balance	Additions	Other	Usage	September 30, 1997 Balance
Employee Separation	$ 766	$ –	$(154)	$(264)	$ 348
Facility Closing	175	–	(24)	(85)	66
Other	348	–	(23)	(170)	155
Total	$1,289	$ –	$(201)	$(519)	$ 569

Management believes that the remaining reserves for business restructuring are adequate to complete its plan.

Cash payments of $483 and $456 and noncash related charges of $36 and $64 primarily associated with asset write-offs were charged against the business restructuring reserves for the year and nine-month period

ended September 30, 1997 and 1996, respectively. Lucent reversed $201 and $98 of business restructuring reserves primarily related to employee separations for the year and nine-month period ended September 30, 1997 and 1996, respectively.

For the year and nine-month period ended September 30, 1997 and 1996, respectively, the reversals of business restructuring reserves were offset by a write-down of $127 for special purpose Bell Labs assets no longer being used in 1997 and $105 of non-recurring and other charges in 1996, principally associated with the separation from AT&T.

6. INCOME TAXES

The following table presents the principal reasons for the difference between the effective tax rate and the United States federal statutory income tax rate:

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax effect	5.4	1.4	5.0
Amortization of intangibles	0.2	–	(2.5)
Foreign earnings and dividends taxed at different rates	0.9	4.1	(12.3)
Research credits	(2.6)	(5.0)	0.3
Other differences – net	(1.7)	3.5	(1.7)
Effective income tax rate before purchased in-process research and development costs	37.2%	39.0%	23.8%
Purchased in-process research and development costs	25.9	0.0	0.0
Effective income tax rate	63.1%	39.0%	23.8%

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

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
INCOME (LOSS) BEFORE INCOME TAXES			
United States	$ 873	$ 101	$(1,253)
Foreign	594	266	115
	$1,467	$ 367	$(1,138)
PROVISION (BENEFIT) FOR INCOME TAXES			
CURRENT			
Federal	$ 464	$ 242	$ 199
State and local	129	53	42
Foreign	226	98	141
	819	393	382
DEFERRED			
Federal	35	(198)	(523)
State and local	77	(45)	(130)
Foreign and other	(5)	(7)	–
	107	(250)	(653)
Provision (benefit) for income taxes	$ 926	$ 143	$ (271)

As of September 30, 1997, Lucent had state and local, and foreign net operating loss carryforwards (tax effected) of $103, which expire primarily after 2000.

The components of deferred tax assets and liabilities at September 30, 1997 and 1996 are as follows:

	September 30, 1997	September 30, 1996
DEFERRED INCOME TAX ASSETS:		
Employee pensions and other benefits, net	$1,777	$ 1,900
Business restructuring	112	417
Reserves and allowances	887	658
Net operating loss/credit carryforwards	107	67
Valuation allowance	(234)	(208)
Other	664	555
Total deferred income tax assets	$3,313	$ 3,389
DEFERRED INCOME TAX LIABILITIES:		
Property, plant and equipment	$ 478	$ 519
Other	240	274
Total deferred income tax liabilities	$ 718	$ 793

Lucent has not provided for United States deferred income taxes or foreign withholding taxes on $2,029 of undistributed earnings of its non-United States subsidiaries as of September 30, 1997, since these earnings are intended to be reinvested indefinitely.

7. DEBT OBLIGATIONS

	September 30, 1997	September 30, 1996
DEBT MATURING WITHIN ONE YEAR		
Commercial paper	$2,364	$2,225
Long-term debt	56	59
Other	118	79
Total debt maturing within one year	$2,538	$2,363
WEIGHTED AVERAGE INTEREST RATES		
Commercial paper	5.5%	5.4%
Long-term debt and other	6.3%	7.1%

Lucent had revolving credit facilities at September 30, 1997 aggregating $5,181 (a portion of which is used to support Lucent's commercial paper program), $4,000 with domestic lenders and $1,181 with foreign lenders. At September 30, 1997, $4,000 with domestic lenders and $955 with foreign lenders were available.

	September 30, 1997	September 30, 1996
LONG-TERM DEBT		
6.90% notes due July 15, 2001	$ 750	$ 750
7.25% notes due July 15, 2006	750	750
Long-term lease obligations	2	4
Other	229	201
Less: Unamortized discount	10	12
Total long-term debt	1,721	1,693
Less: Amounts maturing within one year	56	59
Net long-term debt	$1,665	$1,634

Lucent has an effective shelf registration statement for the issuance of debt securities up to $3,500, of which $1,960 remains available at September 30, 1997.

This table shows the maturities, by year, of the $1,721 in total long-term debt obligations:

					September 30,
1998	1999	2000	2001	2002	Later Years
$56	$52	$23	$761	$0	$829

8. EMPLOYEE BENEFIT PLANS

Pension and Postretirement Benefits

Lucent maintains noncontributory defined benefit pension plans covering the majority of its employees and retirees, and postretirement benefit plans for retirees that include health care benefits, life insurance coverage and telephone reimbursement. Prior to October 1, 1996, Lucent participated in AT&T's noncontributory defined benefit pension and postretirement plans . Accordingly, Lucent's financial statements reflect estimates of the costs experienced for its employees and retirees while they were included in the AT&T plans.

Pension-related benefits for management employees are based principally on career-average pay while benefits for occupational employees are not directly pay-related. Pension contributions are determined principally using the aggregate cost method and are made primarily to trust funds held for the sole benefit of plan participants.

Effective October 1, 1996, pension obligations under the AT&T plans relating to Lucent's employees and retirees were transferred to Lucent plans. Assets that were formerly held by AT&T's Group Pension Trust were subsequently divided between the master pension trusts for qualified pension plans of Lucent and AT&T. The pension benefit obligation and plan assets transferred to Lucent as of September 30, 1996 were $21,269 and $29,805, respectively.

Also effective October 1, 1996, Lucent established separate postretirement benefit plans for its employees and retirees. Postretirement benefit assets were transferred from AT&T, pro rata, on the basis of the present value of future benefit obligations of the applicable plan. The accumulated postretirement benefit obligation and plan assets transferred to Lucent as of September 30, 1996 were $7,399 and $3,711, respectively.

The following table shows the Lucent plans' funded status reconciled with amounts reported in Lucent's consolidated balance sheets, and the assumptions used in determining the actuarial present value of the benefit obligation:

	Pension Benefits September 30,		Postretirement Benefits September 30,	
	1997	1996	1997	1996
Plan assets at fair value	$36,204	$29,805	$ 4,152	$ 3,711
Less: benefit obligation	23,187	21,269	7,939	7,399
Funded (Unfunded) status of the plan	13,017	8,536	(3,787)	(3,688)
Unrecognized prior service costs	1,048	1,115	261	367
Unrecognized transition asset	(1,244)	(1,543)	–	–
Unrecognized net gain	(9,669)	(5,308)	(1,256)	(1,110)
Net minimum liability of nonqualified plans	(23)	(19)	–	–
Prepaid (Accrued) benefit cost	$ 3,129	$ 2,781	$(4,782)	$(4,431)
Accumulated pension benefit obligation	22,669	20,475	n/a	n/a
Vested pension benefit obligation	21,246	19,077	n/a	n/a
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION:				
Retirees	n/a	n/a	5,902	5,510
Fully eligible active plan participants	n/a	n/a	777	821
Other active plan participants	n/a	n/a	1,260	1,068
Accumulated postretirement benefit obligation	n/a	n/a	$ 7,939	$ 7,399
ASSUMPTIONS:				
Weighted average discount rate	7.25%	8.0%	7.25%	8.0%
Rate of increase in future compensation levels	4.50%	5.0%	n/a	n/a

Pension plan assets consist primarily of listed stocks (of which $73 and $6 represent Lucent common stock at September 30, 1997 and 1996, respectively). Postretirement plan assets include listed stocks (of which $2 and $8 represent Lucent common stock at September 30, 1997 and 1996, respectively). Assets in both plans also include corporate and governmental debt, and cash and cash equivalents. Pension plan assets also include real estate investments, and postretirement plan assets also include life insurance contracts.

The prepaid pension benefit costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the Consolidated Balance Sheets.

	Year Ended September 30, (Twelve Months)	Nine Months Ended September 30,	Year Ended December 31, (Twelve Months)
	1997	1996	1995
PENSION COST			
Service cost–benefits earned during the period	$ 312	$ 277	$ 308
Interest cost on projected benefit obligation	1,604	1,172	1,589
Expected return on plan assets[1]	(2,150)	(1,589)	(2,000)
Amortization of unrecognized prior service costs	149	113	160
Amortization of transition asset	(300)	(222)	(289)
Charges (credits) for plan curtailments[2]	56	(16)	97
Net pension credit	$ (329)	$ (265)	$ (135)
POSTRETIREMENT COST			
Service cost–benefits earned during the period	$ 57	$ 51	$ 53
Interest cost on accumulated postretirement benefit obligation	554	408	599
Expected return on plan assets[3]	(264)	(189)	(220)
Amortization of unrecognized prior service costs	35	53	40
Amortization of net (gain) loss	(15)	8	(6)
Charge (credits) for plan curtailments[2]	26	(2)	2
Net postretirement benefit cost	$ 393	$ 329	$ 468

(1) A 9.0% long-term rate of return on pension plan assets was assumed for 1997, 1996 and 1995. The actual return on plan assets was $8,523 and $2,204 for the year and nine-month period ended September 30, 1997 and 1996, respectively, and $5,471 for the year ended December 31, 1995.

(2) The 1997 pension and postretirement charges for plan curtailments of $56 and $26, respectively, reflect the final determination of 1996 curtailment effects.

(3) A 9.0% long-term rate of return on postretirement plan assets was assumed for 1997, 1996 and 1995. The actual return on plan assets was $1,040 and $219 for the year and nine-month period ended September 30, 1997 and 1996, respectively, and $602 for the year ended December 31, 1995.

Pension cost was computed using the projected unit credit method. Lucent is amortizing over approximately 16 years the unrecognized pension transition asset related to the adoption of SFAS No. 87, "Employers' Accounting for Pensions," in 1986. Prior service pension costs are amortized primarily on a straight-line basis over the average remaining service period of active employees.

For postretirement benefit plans, Lucent assumed a 5.4% annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend rate) for 1998, gradually declining to 4.8% by the year 2005, after which the costs would remain level. This assumption has a significant effect on the amounts reported. Increasing the assumed trend rate by 1% in each year would increase Lucent's accumulated postretirement benefit obligation as of September 30, 1997 by $394 and the interest and service cost by $31 for the year then ended.

Savings Plans

Effective October 1, 1996, AT&T's savings plans' assets and liabilities related to Lucent employees and retirees were transferred to Lucent plans. Lucent's savings plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. Lucent matches a percentage of the employee contributions up to certain limits. The expense amounted to $180 and $131 for the year and nine-month period ended September 30, 1997 and 1996, respectively, and $196 for the year ended December 31, 1995.

Employee Stock Ownership Plan

As of September 30, 1996, Lucent established a leveraged Employee Stock Ownership Plan ("ESOP"), after receiving its portion of the ESOP obligation from AT&T, to fund the employer's contributions to the long-term savings and security plan for nonmanagement employees (the "LTSS Plan"). The ESOP obligation is reported as debt and as a reduction in shareowners' equity. Cash contributions to the ESOP are determined based on the ESOP's total debt service less dividends paid on ESOP shares. As of September 30, 1997, the ESOP contained 5.8 million shares of Lucent's common stock. Of the 5.8 million shares, 4.0 million have been allocated to the LTSS Plan and 1.8 million were unallocated. As of September 30, 1997, the unallocated shares had a fair value of $146.

9. STOCK COMPENSATION PLANS

Prior to Lucent's separation from AT&T, certain Lucent employees participated in AT&T stock-based compensation plans under which they received stock options and other equity-based awards. Effective October 1, 1996, such awards held by Lucent employees were replaced by substitute awards under the Lucent Technologies Inc. 1996 Long Term Incentive Program ("1996 LTIP").

The 1996 LTIP provides for the grant of stock options, stock appreciation rights, performance awards, restricted stock awards and other stock unit awards. Awards under the 1996 LTIP are generally made to executives. Lucent also awards stock options to selected employees below executive levels under the Lucent Technologies Inc. 1997 Long Term Incentive Plan ("1997 LTIP"), and awarded a one-time option grant to each full-time employee as of October 1, 1996 to acquire 100 shares of Common Stock under the Lucent Technologies Inc. Founders Grant Stock Option Plan ("FGP"). Stock options are granted with an exercise price equal to or greater than 100% of market value at the date of grant, generally have a ten-year term, and vest three years from date of grant. Subject to customary anti-dilution adjustments and certain exceptions, the total number of shares of Common Stock authorized for grant under the 1996 LTIP and the 1997 LTIP in each calendar year amounted to 2.5% of the total outstanding shares of Common Stock as of the first day of the calendar year. Substitute awards do not reduce the shares available for grant under these two plans. The total number of shares of Common Stock authorized for grant under the FGP was 15 million.

Options to purchase Common Stock may be granted either alone or in addition to other awards. The term of each option will be fixed by a Committee of Lucent's Board of Directors ("Committee"), provided that no incentive stock options, as defined in the Internal Revenue Code, will be exercisable after the expiration of ten years from the date the option is granted. Options will be exercisable at such time or times as determined by the Committee at or subsequent to grant.

In connection with Lucent's acquisition of Octel, all Octel stock options held by Octel employees will become exercisable, according to their terms, for Lucent Common Stock, effective September 29, 1997. The value of these options was included as part of the purchase price related to the acquisition of Octel (see Note 1).

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. On the date of exercise, which is the last trading day of each month, 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 that date. The amount that may be offered pursuant to this plan is 50 million shares. Since inception of this plan, 3.1 million shares have been purchased at a weighted average price of $50.31.

Lucent has adopted the disclosure requirements of SFAS No. 123 "Accounting for Stock-Based Compensation" and, as permitted under SFAS No. 123, applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Compensation expense was $36 and $11 for the year and nine-month period ended September 30, 1997 and

1996, respectively, and $11 for the year ended December 31, 1995. If Lucent had elected to adopt the optional recognition provisions of SFAS No. 123 for its stock option plans and the ESPP, net income (loss) and earnings (loss) per share would have been changed to the pro forma amounts indicated below:

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
Net income (loss)			
As reported	$ 541	$ 224	$ (867)
Pro forma	$ 444	$ 202	$ (870)
Earnings (loss) per share			
As reported	$0.84	$0.38	$(1.65)
Pro forma	$0.69	$0.34	$(1.66)

Note: The pro forma disclosures shown may not be representative of the effects on net income and earnings per share in future years because the year ended September 30, 1997 and the nine months ended September 30, 1996 include the incremental fair value of the Lucent stock options that were substituted for AT&T stock options.

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

	Lucent		AT&T
ASSUMPTIONS:	(1)	(2)	(3)
Dividend yield	0.65%	0.75%	2.4%
Expected volatility	22.4%	22.4%	19.4%
Risk-free interest rate	6.4%	6.1%	6.4%
Expected holding period (in years)	5.1	4.5	5.0

(1) Assumptions for Lucent options awarded during 1997.

(2) Assumptions for Lucent options substituted for AT&T options effective October 1, 1996.

(3) Assumptions for AT&T options for the years 1996 and 1995.

Presented below is a summary of the status of the Lucent stock options held by Lucent employees and the related transactions for the year ended September 30, 1997. Also shown are the AT&T stock options held by Lucent's employees for the nine months ended September 30, 1996 and the year ended December 31, 1995.

	Shares (000's)	Weighted Average Exercise Price
AT&T options outstanding at January 1, 1995	4,824	$42.66
Granted	2,046	55.08
Exercised	(476)	35.86
Forfeited/Expired	(2)	38.75
AT&T options outstanding at December 31, 1995	6,392	47.44
Granted	1,690	65.81
Exercised	(183)	38.27
Forfeited/Expired	(3)	63.18
AT&T options outstanding at September 30, 1996	7,896	51.36
Lucent options substituted for AT&T options, and outstanding at October 1, 1996	9,786	41.43
Granted*	25,623	46.37
Exercised	(2,022)	33.56
Forfeited/Expired	(980)	47.60
Lucent options outstanding at September 30, 1997	32,407	$45.66

**Includes options covering 12,753 shares of Common Stock granted under the FGP on October 1, 1996 (at a weighted average exercise price of $44.61), and the substitution of 2,471 Lucent options for Octel options on September 29, 1997 (at a weighted average exercise price of $39.99).*

The weighted average fair value of Lucent stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended September 30, 1997 is $14.60 per share. The weighted average fair value of AT&T stock options, calculated using the Black-Scholes option-pricing model, granted during the nine months ended September 30, 1996 and the year ended December 31, 1995 is $14.13 and $14.15 per share, respectively.

The following table summarizes the status of Lucent's stock options outstanding and exercisable at September 30, 1997:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares (000's)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
$ 3.91 to $42.60	6,138	4.8	$35.83	4,466	$35.85
$42.61 to $44.56	17,547	9.0	44.55	142	43.71
$44.57 to $53.90	7,073	8.6	50.71	810	52.30
$53.91 to $82.09	1,565	8.1	71.74	44	64.04
$83.78	84	9.7	83.78	18	83.78
Total	32,407		$45.66	5,480	$38.87

Performance awards, restricted stock awards and other stock unit awards may also be granted. Presented below is the total number of shares of Common Stock represented by awards granted to Lucent employees for the year ended September 30, 1997, and the total number of AT&T shares represented by awards granted to Lucent employees for the nine-month period ended September 30, 1996 and the year ended December 31, 1995:

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
Lucent shares granted (000's)	2,141	n/a	n/a
AT&T shares granted (000's)	n/a	262	295
Weighted average market value of shares granted during the period	$46.38	$66.24	$56.46

10. SEGMENT INFORMATION

Industry Segment

Lucent operates in the global communications networking industry segment. This segment includes wire-line and wireless systems, software and products used for voice, data and video communications.

Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic segment data require the use of estimates and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus, the information may not be indicative of results if the geographic areas were independent organizations.

Corporate assets are principally cash and temporary cash investments. Data on other geographic areas pertain to operations that are located outside the United States. Revenues from all international activities (other geographic areas revenues plus export revenues) provided 24.1% and 23.1% of consolidated revenues for the year and nine-month period ended September 30, 1997 and 1996, respectively, and 23.3% for the year ended December 31, 1995.

	Year Ended September 30, (Twelve Months) 1997	Nine Months Ended September 30, 1996	Year Ended December 31, (Twelve Months) 1995
REVENUES			
United States	$21,807	$13,334	$17,826
Other geographic areas	4,553	2,525	3,587
	$26,360	$15,859	$21,413
TRANSFERS BETWEEN GEOGRAPHIC AREAS (Eliminated in Consolidation)			
United States	$ 1,927	$ 1,353	$ 1,081
Other geographic areas	1,267	648	911
	$ 3,194	$ 2,001	$ 1,992
OPERATING INCOME (LOSS)			
United States	$ 1,514	$ 940	$ (679)
Other geographic areas	410	(108)	(67)
Corporate, eliminations and nonoperating	(457)	(465)	(392)
Income (loss) before income taxes	$ 1,467	$ 367	$ (1,138)
ASSETS (End of Period)			
United States	$17,054	$16,492	$15,043
Other geographic areas	5,600	3,912	4,696
Corporate assets	1,778	2,744	738
Eliminations	(621)	(522)	(755)
	$23,811	$22,626	$19,722

Concentrations

Historically, Lucent has relied on a limited number of customers for a substantial portion of its total revenues. In terms of total revenues, Lucent's largest customer has been AT&T, although other customers may purchase more of any particular system or product line. Revenues from AT&T were $3,731 and $1,970 for the year and nine-month period ended September 30, 1997 and 1996, respectively, and $2,119 for the year ended December 31, 1995. Lucent expects that a significant portion of its future revenues will 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 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 suddenly eliminated, could severely impact its operations.

11. FINANCIAL INSTRUMENTS

In the normal course of business, Lucent uses various financial instruments, including derivative financial instruments, for purposes other than trading. Derivative financial instruments are not entered into for speculative purposes. Lucent's derivative financial instruments include foreign currency exchange contracts and interest rate swap agreements. Lucent's nonderivative financial instruments include letters of credit, commitments to extend credit, and guarantees of debt. Lucent generally does not require collateral to support these financial instruments.

By their nature, all such instruments involve risk, including market risk and the credit risk of nonperformance 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 balance sheet. However, Lucent's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and financial guarantees is limited to the amount drawn and outstanding on those instruments.

Exposure to credit risk is controlled through credit approvals, credit limits and monitoring procedures. Requests for providing commitments to extend credit and financial guarantees are reviewed and approved by senior management. Management conducts regular reviews of 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. At September 30, 1997 and 1996, in management's opinion, there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments and there was no significant exposure to any individual customer or counterparty.

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.

Commitments to Extend Credit

Commitments to extend credit to third parties are legally binding, conditional agreements generally having fixed expiration or termination dates and specified interest rates and purposes.

In October 1996, Lucent entered into a credit agreement with Sprint Spectrum LP ("Sprint PCS") to provide long-term financing of $1,800 for its purchase of equipment and services for its nationwide personal communication services ("PCS") wireless network. In May 1997, under the $1,800 credit facility provided by Lucent to Sprint PCS, Lucent closed transactions to lay off $500 of loans and undrawn commitments and $300 of undrawn commitments to a group of institutional investors and Sprint Corporation (a partner in Sprint PCS), respectively. As of September 30, 1997, $146 of these commitments were not yet drawn down by Sprint PCS.

As part of the revenue recognition process, Lucent has assessed the collectibility of the accounts receivable relating to the Sprint PCS purchase contract in light of its financing commitment to Sprint PCS. Lucent has determined that the receivables under the contract are reasonably assured of collection based on various factors, among which was the ability of Lucent to sell the loans and commitments without recourse. Lucent intends to continue pursuing opportunities for the sale of future loans and commitments.

During 1997, Lucent also entered into credit agreements to extend credit of up to approximately $850 in total to three other PCS operators for possible future sales. On October 1, 1997, a commitment for $300 included in the $850 expired and was not extended. The agreement relating to about $200 of credit is subject to fulfillment of certain conditions and completion of final contract documentation.

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. Lucent seeks to limit its exposure to credit risks in any single country or region. Certain financial guarantees are backed by amounts held in trust for Lucent.

Foreign Currency Exchange Contracts

Foreign currency exchange contracts, including forward and option contracts, are used to manage exposure to changes in currency exchange rates, principally Dutch guilders, Deutsche marks and Japanese yen. The use of derivative financial instruments allows Lucent to reduce its exposure to the risk that the eventual net cash inflows and outflows resulting from the sale of products to foreign customers and purchases from foreign suppliers will be adversely affected by changes in exchange rates. Generally, foreign currency exchange contracts are designated for firmly committed or forecasted sales and purchases that are expected to occur in less than one year. Gains and losses on foreign currency exchange contracts that are designated for firmly committed transactions are deferred in other current assets and liabilities. At September 30, 1997 and 1996, deferred gains and losses associated with foreign currency exchange contracts designated for firm commit-

ments are not material to the consolidated financial statements. Gains and losses on foreign currency exchange contracts that are designated for forecasted transactions are recognized in other income as the exchange rates change.

Fair Value of Financial Instruments Including Derivative Financial Instruments

The tables that follow present the valuation methods and the carrying or notional amounts and estimated fair values of material financial instruments. The notional amounts represent agreed-upon amounts on which calculations of cash to be exchanged are based. Letters of credit, commitments to extend credit and guarantees of debt may exist or expire without being drawn upon. Therefore, the total notional or contract amounts do not necessarily represent future cash flows. For derivative financial instruments, the notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments. Lucent's exposure on its derivative financial instruments is limited to the fair value of the contracts with a positive fair value at the reporting date.

Financial Instrument	Valuation Method
Debt maturing within one year	The carrying amount is a reasonable estimate of fair value.
Long-term debt	Market quotes for similar terms and maturities.
Letters of credit	Fees paid to obtain the obligations.
Foreign currency exchange contracts	Market quotes.
Commitments to extend credit	*
Guarantees of debt	*

**It is not practicable to estimate the fair value of these financial obligations because there are no quoted market prices for transactions that are similar in nature.*

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	September 30, 1997		September 30, 1996	
ON BALANCE SHEET INSTRUMENTS				
Liabilities:				
Long-term debt	$1,663	$1,748	$1,630	$1,638
DERIVATIVES AND OFF BALANCE SHEET INSTRUMENTS				
Assets:				
Foreign currency exchange contracts	$ 28	$ 54	$ 14	$ 17
Letters of credit	–	2	–	1
Liabilities:				
Foreign currency exchange contracts	$ 31	$ 36	$ 11	$ 14
Letters of credit	–	–	–	–

The following table presents the contract/notional amount of Lucent derivatives and off balance sheet instruments and the amounts drawn down on such instruments:

	Contract/Notional Amount		Amounts Drawn Down and Outstanding	
	September 30,		September 30,	
	1997	1996	1997	1996
Foreign exchange forward contracts:				
British pounds	$ 136	$ 7		
Dutch guilders	186	128		
Deutsche marks	558	228		
French francs	116	35		
Japanese yen	249	436		
Spanish pesetas	109	47		
Other	388	276		
	$1,742	$1,157		
Foreign exchange option contracts	–	109		
Letters of credit	832	847		
Commitments to extend credit	1,898	156	$ 25	$ 7
Guarantees of debt	309	494	118	346

12. TRANSACTIONS AND AGREEMENTS WITH AT&T

Separation and Distribution Agreement

In connection with the Separation and Distribution, Lucent, AT&T and NCR Corporation ("NCR") executed and delivered the Separation and Distribution Agreement, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (the "Separation and Distribution Agreement"), 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 proportions: 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 addition, Lucent had a number of other agreements with AT&T for federal, state and local tax allocation, tax sharing, general purchase, interim services, system replication and real estate sharing.

13. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Lucent is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations relating 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, 1997 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 beyond that provided for at September 30, 1997 would not be material to the annual consolidated financial statements.

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 underway at about 40 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 range from 5 to 30 years. Reserves for estimated losses from environmental remediation are, depending on the site, based primarily upon 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 amount 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 the financial condition of Lucent or Lucent's results of operations or cash flows. Any amounts of environmental costs that may be incurred in excess of those provided for at September 30, 1997 cannot be determined.

Lease Commitments

Lucent leases land, buildings and equipment under agreements that expire in various years through 2016. Rental expense under operating leases was $324 and $182 for the year and nine-month period ended September 30, 1997 and 1996, respectively, and $209 for the year ended December 31, 1995. The table below shows the future minimum lease payments due under noncancelable operating leases at September 30, 1997. Such payments total $1,037.

	Year Ended September 30,					
	1998	1999	2000	2001	2002	Later Years
Operating leases	$300	$235	$171	$103	$55	$173

14. QUARTERLY INFORMATION (unaudited)

	FISCAL YEAR QUARTERS				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
YEAR ENDED SEPTEMBER 30, 1997					
Revenues	$7,938	$5,149	$6,340	$6,933	$26,360
Gross margin	3,642	2,168	2,600	3,052	11,462
Net income (loss)	859	66	213	(597)[b]	541[b]
Earnings (loss) per weighted average share	$ 1.35	$ 0.10	$ 0.33	$ (0.92)[b]	$ 0.84[b]
Dividends per share	0.075	0.000	0.075	0.075	0.225
Stock price:[d]					
High	53 1/8	60 5/8	74 3/16	90 3/4	90 3/4
Low	42 1/8	44 3/4	49 7/8	72 3/16	42 1/8
Quarter-end close	46 1/4	52 1/2	72 1/16	81 3/8	81 3/8
YEAR ENDED SEPTEMBER 30, 1996					
Revenues	$7,427	$4,577	$5,364	$5,918	$23,286
Gross margin	2,325[a]	1,824	2,170	2,575	8,894[a]
Net income (loss)	(1,017)[a]	(103)	72	255	(793)[a]
Earnings (loss) per weighted average share[c]	$ (1.94)[a]	$ (0.20)	$ 0.11	$ 0.40	$ (1.37)[a]
Dividends per share	0.00	0.00	0.075	0.075	0.15
Stock price:[d]					
High	n/a	n/a	39 1/4	45 7/8	45 7/8
Low	n/a	n/a	29 3/4	30 5/8	29 3/4
Quarter-end close	n/a	n/a	37 7/8	45 7/8	45 7/8

(a) 1996 includes a pretax charge of $2,801 ($1,847 after taxes), to cover restructuring costs of $2,613 and asset impairment and other charges of $188.

(b) As a result of the 1997 acquisition of Octel, Lucent took a charge of $979 ($966 after tax) in the fourth quarter for acquired in-process research and development.

(c) The number of weighted average shares outstanding increased in 1996 as new common shares were issued through the IPO. For this reason, the sum of the quarterly earnings (loss) per weighted average share amounts for 1996 does not equal the earnings per weighted average share for the year. The calculation of earnings per share on a historical basis includes the retroactive recognition to January 1, 1995 of the 524,624,894 shares owned by AT&T.

(d) Obtained from the Composite Tape.

15. SUBSEQUENT EVENTS

On October 1, 1997, Lucent formed a venture with Philips Electronics N.V. called Philips Consumer Communications, L.P. ("PCC"). Lucent's Consumer Products business unit was contributed to PCC at net book value in return for an initial equity interest of 40%. Lucent will account for its interest in PCC under the equity method of accounting. The Consumer Products business unit was not material to the consolidated financial position, results of operations or cash flows of Lucent.

On October 1, 1997, Lucent sold the Advanced Technology Systems unit of its Government Solutions division ("ATS") to General Dynamics Corporation for $265 in cash. A pretax gain of $149 was realized on the sale. ATS was not material to the consolidated financial position, results of operations or cash flows of Lucent.

On October 15, 1997, Lucent announced that it will acquire Livingston Enterprises, Inc., a provider of remote access networking solutions, in a merger involving approximately $610 worth of Lucent common stock and options. Lucent will account for the transaction under purchase accounting.

It is anticipated that approximately $427 of the purchase price would be allocated to in-process research and development. This amount would be charged to income at the date of acquisition, which is currently expected to be in the quarter ending December 31, 1997. The remaining purchase price would be allocated to tangible assets, acquired technology and goodwill, less liabilities assumed. Based on current estimates, Lucent anticipates goodwill and acquired technology to be approximately $180, which will be amortized over periods not exceeding eight years.