

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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LUCENT TECHNOLOGIES INC

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Mailing Address
600 MOUNTAIN AVE
MURRAY HILL NJ 07974

Business Address
600 MOUNTAIN AVE
MURRAY HILL NJ 07974
9085828500

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

() ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended _____

OR

(X) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From January 1, 1996 to September 30, 1996

Commission File Number 001-11639

LUCENT TECHNOLOGIES INC.

A DELAWARE CORPORATION

I.R.S. EMPLOYER NO. 22-3408857

600 Mountain Avenue, Murray Hill, New Jersey 07974

Telephone Number 908-582-8500

Securities registered pursuant to Section 12(b) of the Act: See attached SCHEDULE A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes....x.... No.....

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

At November 30, 1996, the aggregate market value of the voting stock held by non-affiliates was approximately \$32,650,000,000.

At November 30, 1996, 637,131,272 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the registrant's annual report to security holders for the fiscal year (transition period) ended September 30, 1996 (Part II)
(2) Portions of the registrant's definitive proxy statement dated December 30, 1996, issued in connection with the annual meeting of shareholders (Part III)

SCHEDULE A

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<CAPTION>

Title of each class Name of each exchange on which registered
<S> <C>

Common Stock (Par Value \$.01 Per Share)	New York Stock Exchange
6.90% Notes due July 15, 2001	New York Stock Exchange
7.25% Notes due July 15, 2006	New York Stock Exchange

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This Report contains trademarks, service marks and registered marks of the Company and its subsidiaries, and other companies, as indicated.

PART I

ITEM 1. BUSINESS.

GENERAL

Lucent Technologies Inc. ("Lucent" or the "Company") was incorporated in Delaware in November 1995. The Company has its principal executive offices at 600 Mountain Avenue, Murray Hill, New Jersey 07974 (telephone number

908-582-8500). Prior to February 1, 1996, AT&T Corp. ("AT&T") conducted the Company's business through various divisions and subsidiaries.

The Company was formed following the announcement in September 1995 by AT&T of its intention to create a separate company comprised of the AT&T systems and technology businesses and operations. On February 1, 1996, AT&T began executing its decision to separate the Company into a stand-alone company (the "Separation") by transferring assets and liabilities to the Company. On April 10, 1996 the Company issued 112,037,037 shares of its Common Stock in an Initial Public Offering ("IPO"), and on September 30, 1996, AT&T distributed all of its shares in the Company to AT&T shareholders of record as of September 17, 1996. As used herein, references to the "Company" or "Lucent" include the historical operating results and activities of the business and operations which comprise the Company as of the date hereof.

On July 17, 1996, the Company's Board of Directors voted to change the Company's fiscal year from a calendar year to a year beginning October 1st and ending September 30th. Accordingly, unless the context otherwise requires, references herein to the "year 1996," "fiscal 1996," "this year," "1996," or similar terms mean the nine-month period January 1, 1996 through September 30, 1996.

The Company is one of the world's leading designers, developers and manufacturers of telecommunications systems, software and products. The Company is a global market leader in the sale of public telecommunications systems, and is a supplier of systems or software to most of the world's largest network operators. The Company is also a global market leader in the sale of business communications systems and in the sale of microelectronic components for communications applications to manufacturers of communications systems and computers. Further, the Company is the largest supplier in the United States of telecommunications products for consumers. In addition, the Company has provided engineering, installation, maintenance or operations support services to over 250 network operators in 75 countries. The Company's research and development activities are conducted through Bell Laboratories ("Bell Labs"), which consists of approximately three-quarters of the total resources of AT&T's former Bell Laboratories division, one of the world's foremost industrial research and development organizations.

SYSTEMS FOR NETWORK OPERATORS

The Company designs, develops, manufactures and services systems and software which enable network operators to provide wireline and wireless local, long distance and international voice, data and video services and cable television service. The Company's networks, which include switching, transmission and cable systems, are packaged and customized with application software, operations support systems and associated professional services.

Systems and Services

Telecommunications Networking Systems. The Company designs, develops, manufactures and services advanced telecommunications networking systems, which include equipment, software and associated professional services. These systems connect, route, manage and store voice, data and video in any combination, and are used for: wireline access; local and long distance switching; intelligent network services and signaling; wireless communications, including both cellular and personal communications services ("PCS"); and high-speed, broadband multifunctional communications.

The Company supplies each of the five broad elements that comprise telecommunications networks: switching systems, which route information through the network; transmission systems, which provide the communications path through the network that carries information between points in the network; operation support

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systems, which enable service providers to manage the work flow, planning, surveillance, management, provisioning and continuous testing of their networks; intelligent network/application software, which enables service providers to offer a broad array of enhanced and differentiated services; and cable systems, which provide the transport media between points in a network. These systems collectively comprise the infrastructure that enables telecommunications network operators to provide traditional narrowband voice and data services and that enables both new and traditional network operators to offer broadband multifunctional services.

The Company has a wireline local access installed base (the number of access lines serviced by switches manufactured by the Company) of approximately 110 million lines. The Company's primary switching products are the 5ESS(R) switch for local and long distance switching and international gateways, and the 4ESS(TM) Digital Switch (the "4ESS switch") for long distance and international switching.

The 5ESS switch is used throughout the world to provide a combination of network applications, including local and long distance switching and international gateways, operator services, network signaling, intelligent networking and wireless switching. As of September 1995, the 5ESS switch, with the Company's 5E10 software, has enabled network operators to offer simultaneous wireline and wireless, local, long distance and international services as well as any combination of voice, data and video.

The 4ESS switch, which was developed for and is primarily deployed in AT&T's network, is used to provide domestic and international long distance switching. The 4ESS switch can handle over 775,000 peak hour calls.

The Company designs, develops, manufactures and services a broad range of transmission access and transport systems. Network operators use these systems to transport any combination of voice, data and video between subscribers and the central office or between points within a network engaged in local, national or international communications.

World standards for transmission systems have undergone rapid technological change in recent years. The new standards, known as Synchronous Optical Network ("SONET") in North America and SDH in other markets, maximize transmission capability and simplify network management for network operators. The Company markets systems supporting both standards.

The Company offers a broad line of transmission access systems for the provision of a wide range of services, including traditional telecommunications service and broadband multifunctional services. Transmission access systems transport information between the subscriber and the central office. The Company's products include SLC(R)-2000, a hybrid fiber/copper pair system, which extends fiber-based optical transmission into the local loop. The Company's products also include the SDV-2000, a switched digital video system which extends fiber to the curb, and ASOS, which enables network operators to manage the work flow, planning, surveillance, provisioning and continuous testing of their multifunctional networks.

The Company's transmission transport systems are utilized for high capacity communications between points within a communications network. These products are primarily digital and provide for the movement of any combination of voice, data, and video across fiber, coaxial and microwave based media. The Company's products include fiber transport systems (FT 2000), digital multiplexer systems (DDM 2000) and the digital access and cross connect systems (DACS family of products).

The Company's operation support systems enhance a network operator's ability to activate, manage and maintain its networks. These systems continuously monitor network performance and activity level, and allow for rapid trouble identification, load balancing and planning for network utilization. The Company's systems support the efforts of network operators to reduce operating costs and minimize labor by automating labor intensive tasks.

The Company's network management systems offer a broad array of modular software, including element managers designed for traditional telephony, video and wireless; network managers that monitor, test and optimize the utilization of a network; service managers that manage work flow; and business managers that include customer service systems. For example, the Company's NetMinder system is an advanced network management

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routing system that mitigates network congestion through efficient call routing and completion.

The Company's A-I-NET(R) intelligent network products enable network operators to offer new services that can be created, deployed or managed by themselves, the Company, or third parties. Services created with A-I-NET products include toll free calling (800 and 888 service in the United States), call forwarding, call waiting, voice dialing and messaging.

The Company has introduced products to address the growing demand for emerging broadband multifunctional services which permit the simultaneous transmission of any combination of voice, data and video, such as its high capacity Asynchronous Transfer Mode ("ATM") switching product, the GLOBEVIEW(R)-2000 Broadband System.

In addition, the Company designs, develops, manufactures and services cable systems, which include optical fiber, fiber optic cable, electronic wire and cable and apparatus for both fiber and copper cable systems. The Company's cable systems are used to connect various devices in a network and terminal devices to public and private networks. These cable systems are deployed for outside plant and central office wiring, and for traditional telephony, cable television, wireless networks and broadband applications.

The Company also supplies fiber optic cable systems, high strength, high performance fiber for underseas cablers and outside plant turnkey systems, which are generally large capital projects in emerging markets for the engineering and construction of telecommunications infrastructure. The Company's TRUEWAVE(TM) optical fiber enables network operators to reduce their costs by increasing the distance between optical amplifiers.

Wireless Network Systems. The Company designs, develops, manufactures and services wireless network infrastructure systems, which include the 5ESS switch, base stations, wireless network software and operation support systems. These systems provide network operators with the capability to offer a wide range of cellular and other wireless communications services, including PCS, wireless data and fixed wireless access.

The Company's wireless systems are in operation in nine of the top ten United States Metropolitan Statistical Areas. The Company's primary wireless system is the AUTOPLEX(R) System 1000 product family, which includes the high capacity Series II base station. The base station contains the radio transceiver that establishes wireless communications with a mobile telephone. Base stations are arranged geographically so that mobile customers can be "handed off" seamlessly from one base station to the next as they travel. The network intelligence to accomplish this is housed in the Company's Mobile Switching Center, which includes the 5ESS switch and which connects the base stations to the public telephone network. The Company also offers base stations for start-up applications and smaller markets, a minicell product for rural and international markets and a microcell for congested, high traffic areas.

Wireless technology is evolving from analog to digital. The Company provides networks based on a variety of the leading air interface standards: AMPS, CDMA, TDMA and GSM.

In addition, the Company designs, develops, manufactures and services fixed wireless access systems. The Company offers Wireless Subscriber Systems, which support the AMPS standard, and the new AIRLOOP(TM) Wireless Local Loop system, which utilizes CDMA technology. Also, as part of the acquisition of the manufacturing and other operations of certain subsidiaries of Philips Electronics NV (the "Philips Businesses"), the Company acquired Philips' fixed wireless system, which is based on the DECT (digital enhanced cordless telephone) standard. All three systems enable network operators to expand their networks in markets where traditional wireline systems are not cost justified, and to provide telephone services as an alternative to traditional network operators.

The Company designs, develops, manufactures, and services CDPD-based wireless data systems which enable wireless network operators to offer data services as an overlay to their existing analog voice infrastructure without acquiring additional spectrum or upgrading to a digital network. These systems offer the increased reliability and efficiency of switched digital packet data systems.

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Due to the complexity of wireless systems, the Company also offers a broad range of professional services, which include project management, site acquisition, radio frequency engineering, microwave relocation, construction management, cellular optimization and wireless data support.

Markets

The principal customers for the Company's systems are network operators that provide wireline and wireless local, long distance and international telecommunications services, including local, long distance and international telecommunications companies and cable television companies. The Company's systems for network operators are installed to expand the capacity and features offered by existing networks, to replace older technology in existing networks and to establish new networks for entrants into deregulated or previously unserved markets. See "Outlook -- Reliance on Major Customers."

As a result of structural, public policy and technological changes, since the mid-1980's the telecommunications industry has undergone a period of significant growth in the number of lines in service and applications offered. In developed markets, deregulation has permitted new market entrants to construct networks in previously monopolistic markets. In response, existing network operators have expanded beyond traditional franchises and are offering new services. In emerging markets, privatization, competition and economic expansion have increased demand for networking systems. At the same time, technological advances also have increased demand by reducing operating costs and facilitating new applications, including multifunctional services.

The Company markets and sells its products worldwide primarily through a direct sales force due to the complexity of these systems. Most of the Company's sales of systems for network operators are made pursuant to general purchase agreements, which establish the terms and conditions and provide for price determination to be made on a contract bid basis. In addition, certain of the large infrastructure projects are conducted under long-term, fixed-price contracts. See "Outlook -- Multi-Year Contracts" and "-- Seasonality."

As a result of the increased complexity of systems for network operators and the high cost of developing and maintaining in-house expertise, network operators demand complete, integrated and turn-key projects. Network operators increasingly are seeking overall network or systems solutions that require an increased software content which would enable them to deploy rapidly new and differentiable services. In response, the Company has formed an organization focused on turn-key network engineering projects for both public and private sector customers. The Company markets integrated solutions whereby the Company assumes full responsibility for the project, and engineers, designs and installs the network, including equipment and software manufactured by both the Company and third parties.

Increasingly, as a result of the financial demands of major network deployments, network operators are looking to their suppliers to arrange for financing. The ability to provide financing is a requirement to conduct business in certain emerging U.S. and foreign markets, and in some cases the Company furnishes or guarantees financing for customers. As a result, the Company works with its customers to structure and place financing packages. See "Outlook -- Future Capital Requirements."

In order to market its product line worldwide, the Company has established wholly owned subsidiaries and joint ventures with local companies in 16 countries.

Competition

The Company believes that its key competitive factors are its broad product line, large installed base, relationship with key customers, technological expertise and new product development capabilities. The Company's primary competitors in the market for telecommunications systems are four very large European and North American companies which have substantial technological and financial resources and which offer similar broad product catalogs. These competitors are Alcatel Alsthom, Northern Telecom Limited, Siemens AG and Telefonaktiebolaget LM Ericsson. In 1995, the Company and these four competitors collectively accounted for about 34% of the world's public network systems sales, of which the Company's sales of systems for network operators accounted for 9%.

In addition, in all of the Company's product areas other than switching, the Company faces significant competition from other companies which do business in one or a number of such product areas. For example, in wireless systems, Motorola, Inc. and Nokia Corporation, both of which are very large companies with substantial technological and financial resources, are significant competitors. In transmission and cable systems, competition in the markets includes hundreds of smaller competitors.

The Company designs, develops, manufactures and services communications systems and products for large and small business customers, home offices and government agencies. The Company's business communications systems can be upgraded regularly with new software releases, can support local and wide area voice and data networking and are often integral components of global enterprise networks. The Company's systems primarily are customer premises-based private switching systems and products, call center systems, voice processing systems, which include voice messaging and voice response systems, and the associated application software and professional support services. In addition, the Company has begun to participate in the emerging multi-media products business. The Company serves over 1.4 million business locations in the United States and approximately 100,000 business locations in over 90 other countries.

Systems and Services

The Company's core business communications system products are private switching systems, generally PBXs and key systems, usually located at the customer's premises, that permit a number of local telephones or terminals to communicate with one another, with or without use of the public telephone network. The Company offers wired and wireless communications systems, including the DEFINITY(R) family of products for large customers and the MERLIN LEGEND(R) and PARTNER(R) systems for smaller businesses and home offices. The DEFINITY Enterprise Communication Server provides real-time voice and mixed-media call processing. The recently announced FREEWORKS family of business mobility solutions enables communication throughout the work place with full freedom of movement.

The Company's messaging and response systems store and forward voice, data and images and conduct initial call processing, which integrates PBX and computer functions. In addition, the Company is a technological leader in the development of speech recognition algorithms, which have been incorporated into both public and private call processing applications, such as operator services. The Company's principal systems include the INTUITY(TM) AUDIX(R) and DEFINITY AUDIX voice messaging systems for use with the Company's or a competitor's PBX; INTUITY CONVERSANT(R), a multi-lingual interactive voice response system which can recognize speech in nine languages/dialects; and the INTUITY Multimedia Messaging System, a system that combines voice messaging and voice-response technology into a single desktop application.

The Company's call center systems integrate the hardware and software associated with computing, telephony, and multifunctional messaging and response applications. Call centers are the initial entry point for customers to access a business' telephone sales and support operation. The Company's systems permit the routing and administration of a large volume of incoming calls, and the integration with business databases of customer and product information. The Company's call center systems are used by companies in diverse industries such as financial services, retailing and transportation. The call center environment in which these companies operate is characterized by hundreds of telephone service agents located in geographically dispersed networked sites, processing tens of thousands of calls per hour. For example, using these systems, businesses can provide their customers with the ability to check balances or order status, to place orders, and to receive additional information and support.

In October 1995, the Company introduced the MMCX, the industry's first multifunctional product to deliver real-time business calling features such as conferencing, transfer, call coverage, and add/drop to switched voice or data networking. The MMCX allows customers to migrate their existing network to multifunction capabilities. This enables the customer to support new applications and transport technologies, such as ATM.

In addition, the Company's SYSTMIMAX(R) structured wiring system for business customers provides broadband multifunctional LAN interconnections within a building or campus. These systems are comprised of fiber optic and copper cable and associated apparatus.

The Company offers a wide range of professional service options, including call center design, network engineering, training, remote diagnostics and dedicated on-site technicians. Their on-demand services involve routine

testing and diagnostics, maintenance and repair, moves and rearrangements, and software and hardware upgrade installations.

The Company's remote diagnostics and repair capability permits the Company to monitor, test, maintain and resolve problems from its regional service centers. Many of the Company's systems are designed with intelligent software which establishes a real-time link between the customer premises and a regional service center's expert system. This permits the customer to reduce its system down-time and enables the Company to automate many maintenance and repair tasks.

Markets

The Company markets its systems and services to large and small businesses and government agencies through a large, direct sales force and through a network of agents, dealers and distributors. In the United States, the Company effects these sales primarily through the direct sales force, while sales elsewhere occur primarily through the efforts of dealers and distributors. The Company's systems are deployed in applications for customer sales and service, conferencing and collaboration, mobility and distributed work force, messaging and enterprise networking. The Company fields a large group of application specialists to design call center, distance learning and other customized applications.

The Company believes that the premises-based communications market may be transforming from distinct voice and data networks to multifunctional networks that will be able to support any combination of voice, video and data communications simultaneously. The Company is designing certain business communications systems to enable its customers to simplify their premises networks by combining separate voice, video and data networks into a single architecture.

The Company has entered into alliances with Lotus Development Corporation, to enable multimedia messaging in the Lotus Notes environment, and with Novell, Inc. to extend multimedia messaging and computer/telephony integration, and was one of the founders with International Business Machines Corporation, Apple Computer, Inc., and Siemens AG of VERSIT*, an industry consortium organized to ensure the interoperability of multivendor multimedia applications. In 1996 the Company acquired Agile Networks, a provider of intelligent data switching products.

Competition

The Company considers its working relationships with its customers and knowledge of their individual business needs to be important competitive factors. The Company competes principally with three other large companies with substantial technological and financial resources in the sale of business communication systems. These competitors are Northern Telecom Limited, Siemens AG (through its subsidiary Siemens RoIm Communications, Inc.) and Alcatel Alsthom. Together with the Company, in 1995 these competitors accounted for approximately 52% of the sales of business communications systems globally, with the Company accounting for approximately 11%. In addition, as the market transforms to multifunctional systems, the Company expects that it also may encounter competition from companies that design and manufacture data network equipment.

The Company believes that key competitive factors in this market are service support, the ability to upgrade existing systems for new applications, price and reliability.

* Lotus Notes is a registered trademark of Lotus Development Corporation; VERSIT is a trademark of the consortium's founders.

The Company designs, manufactures and sells integrated circuits ("ICs"), electronic power systems and optoelectronic components for communications applications. These microelectronic products are important components of many of the Company's own systems and products. The Company also supplies these components to other manufacturers of communications systems and computers. The

Company offers products in several IC product areas critical to communications applications, including digital signal processors ("DSPs") for digital cellular phones and standard-cell application specific integrated circuits ("ASICs").

Products

The Company's ICs are designed to provide advanced communications and control functions for a wide variety of electronic products and systems. The Company focuses on IC products that are used in communications and computing and that require high-performance and low power chip architectures; complex large-scale chip design in digital, analog and mixed-signal technologies; DSP architectures and algorithms; high-frequency and high-voltage technologies; and high speed data and signal processing. The Company offers a wide variety of standard, semi-custom and custom products for cellular equipment, communications networks, computers and computer peripherals, modems and consumer communications products. Products include DSPs, ASICs, field programmable gate arrays and communications ICs. The Company's products are manufactured using a variety of technologies, from low-power, low-voltage submicron CMOS (complementary metal oxide semiconductors) to high-frequency and high-voltage bipolar processes.

The Company designs, develops and manufactures energy systems, electronic power supplies and associated magnetic components for the telecommunications and electronic data processing industries. These products serve applications ranging from modems for personal computers to large telephone central offices. Products include DC/DC converters, AC/DC switching power supplies, transformers, inductors and energy systems that provide alarm, control, and backup power management.

The Company designs, develops and manufactures optoelectronic products which convert electricity to light (emitters) and light to electricity (detectors), thereby facilitating optical transmission of information. These products include semiconductor lasers, photodetectors, integrated transmitters and receivers, and advanced-technology erbium-doped fiber amplifiers. The Company provides these products worldwide to manufacturers serving the telecommunications, cable television and network computing markets. Optoelectronic products extend the transmission capacity of fiber to meet the requirements of such applications as video-on-demand, interactive video, teleconferencing, image transmission and remote database searching. The Company markets a number of advanced products, including critical optoelectronic components that support telecommunication transmission; long-wavelength optical data modules for data networking; and analog lasers for use in cable television fiber optic transmission. The Company believes that its optoelectronic products have higher photonics reliability than those of its competitors due to their low field failure rate and the Company's evaluation methodologies in manufacturing that allow the detection and elimination of early failures.

In December 1996, the Company sold its operations for the design and manufacture of printed circuit boards and backplanes.

Markets

The Company's microelectronic products are sold globally to manufacturers of communications systems and computers. In addition, the Company's energy power systems are sold directly to U.S. and foreign telephone companies. The Company's customers are competing in markets characterized by rapid technological changes, decreasing product life cycles, price competition and increased user applications. These markets have experienced significant expansion in the number and types of products they offer to end-users, particularly in personal computing and portable access communication devices. As a result, the Company's customers continue to demand components which are smaller, require less power, are more complex, provide greater functionality, and are produced with shorter design cycles and less manufacturing lead time.

In 1995, the Company also introduced a GSM hardware platform based upon a highly integrated multiple-chip design for digital cellular phones that performs all the key

handset functions between the microphone and the antenna in both voice and data services. The Company also sells the associated software product elements necessary to support the GSM standard.

In fiscal 1996, more than half of the Company's microelectronic production was sold to customers other than the Company. The Company's microelectronic products are also key components of its systems for network operators, business communications systems, and consumer products. The Company's microelectronics products compete with products of third-party manufacturers for inclusion in the Company's systems and products.

Competition

The Company considers its technological leadership, product leadership, and relationships with key customers to be important competitive factors. The market for microelectronic products is global and generally highly fragmented. The Company's competitors differ widely among product categories. The Company's competitors in certain IC product categories include Motorola, Inc. and Texas Instruments Incorporated; in electronic power systems include Astec Industries, Inc. and Unitech plc (through its subsidiary, NEMEC-Lambda); and in optoelectronics include Fujitsu Limited and Northern Telecom Limited.

The Company believes that key competitive factors in the microelectronics marketplace are the early involvement in customers' future application requirements, the speed of product and technological innovation, price, customer service, and manufacturing capacity. Other important competitive factors include quality, reliability and local manufacturing presence.

CONSUMER PRODUCTS

The Company designs, manufactures, services and leases communications products for consumer, small office and home office use.

Products

The Company has a broad selection of telephone products for the consumer market. Cordless telephones are a significant portion of the Company's consumer product line. The Company offers Cordless telephones based on the traditional 46/49 frequency, as well as the 900 MHz bandwidth. The latest introduction is the 9510 Digital Spread Spectrum model with the clearest sound and longest range of any telephone in the Company's product line. The Company also offers a broad line of analog, digital, stand-alone and integrated telephone answering systems, which are offered in corded and cordless versions. The Company participates in the full spectrum of corded telephones including basic, designer and feature telephones. The Company's TRIMLINE(R) telephone continues to be the highest volume telephone in the industry.

The Company plans to offer a line of cellular and PCS phones which conform to both of the North American Digital Standards (TDMA and CDMA). The Company's product development efforts are focused on the creation of a high quality, flexible and cost effective architecture for these products in order to meet the rapidly evolving needs of customers.

The Company is implementing a common design for its consumer products, which includes a common look, feel, feature placement and feature use. As part of this process, the Company expects to reduce the number of different components and casings used in its product line. The Company believes this uniformity will reduce costs, reinforce its brand identity, and increase manufacturing flexibility. The Company expects that up to 70 percent of its product line in 1997 will be new or redesigned products. In addition, the Company has undertaken a program to increase the percentage of the products designed and manufactured in its own facilities. Under the Brand License Agreement (as defined herein), the Company has the right to market certain consumer products under the "AT&T" name alone, and in combination with the Company's name, each for certain specified periods. See "Separation Agreements -- Brand License and Related Matters."

Markets

The Company distributes its products in the United States through approximately 900 retailers representing over 17,000 retail outlets, including such national retailers as

Wal-Mart Stores, Inc., Sears, Roebuck and Co., Circuit City Stores, Inc., Best Buy Co., Inc. and Service Merchandise Company. In 1996, as previously announced, the Company closed all of its Phone Center stores as part of its reorganization efforts. The Company also offers consumers a rental option for

selected products, and currently serves over three and one-half million rental customers. Recently, the Company's practices have been challenged in connection with rental of products.

Competition

The Company believes that its position in the consumer communications products industry is due to the quality and reliability of its products, the "AT&T" brand name, its strong distribution channels and its broad product line. The Company's competitors in consumer products are traditional consumer electronic manufacturers. The industry is characterized by significant consolidation within each product category, although the principal competitors in each are different. In traditional telephone products, the Company's principal competitors are Thomson Consumer Electronics (marketing under the GE brand), U.S. Electronics, Inc. (marketing under the BellSouth brand), Panasonic Co., USA and Sony Corporation which, together with the Company, accounted for about 68% of market sales in 1995, of which the Company accounted for 31%. In wireless terminal products, the Company's principal competitors are Motorola and Nokia which, together with the Company, accounted for over 65% of market sales in 1995, of which the Company accounted for 7%.

OTHER SYSTEMS AND PRODUCTS

The Company designs, develops and manufactures advanced technology systems which support the United States federal government's need for specially designed integrated systems for military and civilian use. The Company offers a full range of products on a direct funding basis from the United States government. These systems focus on undersea sensor systems, information processing and secure communications. The funded research has generated commercial by-products in lightwave transmission equipment, wireless communications systems and multifunctional compression algorithms.

The Company in 1996 sold its subsidiary, Paradyne, which designed and manufactured modems and other data communications equipment.

BELL LABORATORIES

The Company has been and will continue to be supported by the technological expertise provided by Bell Labs, one of the world's foremost industrial research and development organizations. Bell Labs consists of all of the operations of AT&T's former Bell Laboratories division which support the businesses of the Company, and basic research capability, which together comprise approximately three quarters of the total resources of AT&T's former Bell Laboratories division. Bell Labs has made significant discoveries and advances in communications science and technology, software design and engineering, and networking. These contributions include the invention of the transistor and the design and development of ICs and many types of lasers. Areas of Bell Labs research and development work in recent years include: networking software; lightwave transmission, which offers greater transmission capacity than other transmission systems; electronic switching technology, which enables rapid call processing, increased reliability and reduced network costs; and microelectronics components, which bring the latest advantages of very large scale integration to the full range of products offered by the Company.

Bell Labs' research and development activities continue to focus on the core technologies critical to the Company's success, which are software, network design and engineering, microelectronics and photonics.

Bell Labs is a leader in software research, development and engineering for communications applications. For example, its innovations in fault-tolerant software have enabled the Company to achieve a level of system reliability with off-the-shelf commercial processors that allows the Company to reduce its reliance on custom microprocessors.

Bell Labs has contributed many innovations in voice quality, is a leader in the development of digital signal processing, and has developed a number of innovative algorithms for high-quality speech and audio. These innovations have contributed to the Company's implementation of speech processing applications which include text-to-

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speech synthesis, speech recognition and automatic translation of speech from one language to another.

Bell Labs also has led in the development of software-based networking technologies that support the Company's systems and products. Recently, it has developed systems for digital cellular, PCS, mobile computing and wireless LANs, and its research in ATM led to the Company's offering of the first large ATM switch in 1993.

Similarly, Bell Labs' advances extend to the microlasers used in today's broadband multifunctional transmission systems, and to today's optical amplifiers and TRUEWAVE(R) fiber. Current photonic research includes work on passive optical networks, photonic switching and quantum wire lasers.

BACKLOG

The Company's backlog, calculated as the aggregate of the sales price of orders received from customers less revenue recognized, was approximately \$12,100 million and \$7,500 million on September 30, 1996 and December 31, 1995, respectively (approximately 3% and 4% of which, respectively, represented backlog of orders from AT&T). Approximately \$6,200 million of orders included in the September 30, 1996 backlog are scheduled for delivery after September 30, 1997. However, all orders are subject to possible rescheduling by customers. Although the Company believes that the orders included in the backlog are firm, some orders may be canceled by the customer without penalty, and the Company may elect to permit cancellation of orders without penalty where management believes that it is in the Company's best interest to do so. About \$6,700 million of the amount at September 30, 1996 is under large, multi-year contracts of which about \$5,000 million is scheduled for delivery after September 30, 1997 and is included in the \$6,200 million referred to above. Approximately \$4,000 million at September 30, 1996 and \$3,400 million at December 31, 1995 are under large, long-term contracts with the Ministry of Post and Telecommunications of Saudi Arabia which require annual appropriations of the Saudi Arabian government.

SOURCES AND AVAILABILITY OF MATERIALS

The Company makes significant purchases of electronic components, copper, silicon, precious metals, aluminum, and other materials and components from many domestic and foreign sources. The Company has been able to obtain sufficient materials and components from sources around the world to meet its needs. The Company also develops and maintains alternative sources for essential materials and components. Occasionally, special inventories of components are maintained to minimize the effects of shortages. The Company does not have a concentration of sources of supply of materials, labor or services that, if suddenly eliminated, could severely impact its operations.

PATENTS AND TRADEMARKS

From January 1, 1996 to September 30, 1996, the Company was issued 552 patents in the United States and 1,497 in foreign countries. The Company owns approximately 8,200 patents in the United States and 14,000 in foreign countries. These foreign patents are counterparts of the Company's United States patents. Many of the patents owned by the Company are licensed to others and the Company is licensed to use certain patents owned by others. In connection with the Separation, the Company has entered into an extensive cross-licensing agreement with AT&T and NCR Corporation ("NCR"). See "Separation Agreements -- Patent Licenses and Related Matters."

The Company intends to market its products under its own name and mark, except with respect to certain consumer products and business communications systems, which may be marketed under the "AT&T" name alone until April 10, 1997 or in combination with the Company's name until April 10, 2000. In addition, certain leased products or maintenance contracts may be marketed under the "AT&T" name until October 10, 2001. See "Separation Agreements -- Brand License and Related Matters."

The Company considers its many trademarks to be valuable assets. Most of its trademarks are registered throughout the world.

OUTLOOK

Forward Looking Statements

This Outlook section and other sections of this Form 10-K report contain

forward-looking statements that are based on current expectations, estimates and projections about the industries in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," 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 ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include increasing price and product/services competition by foreign and domestic competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost effective basis; the mix of products/services; the achievement of lower costs and expenses; domestic and foreign governmental and public policy changes which may affect the level of new investments and purchases made by customers; changes in environmental and other domestic and foreign governmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in increasing use of large, multi-year contracts; the cyclical nature of the Company's business; the outcome of pending and future litigation and governmental proceedings and continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support the Company's future business. These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions including interest rate and currency exchange rate fluctuations and other Future Factors.

Competition

The Company currently faces significant competition in its markets and expects that the level of price and product competition will increase. In addition, as a result of both the trend toward global expansion by foreign and domestic competitors and technological and public policy changes, the Company anticipates that new and different competitors will enter its markets. These competitors may include entrants from the telecommunications, software and data networking industries. Existing competitors have, and new competitors may have, strong financial capability, technological expertise and well-recognized brand names.

Dependence On New Product Development

The markets for the Company's principal products are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and evolving methods of building and operating telecommunications systems for network operators and business customers. The Company's operating results will depend to a significant extent on its ability to continue to introduce new systems, software and services successfully on a timely basis and to reduce costs of existing systems, software and services. The success of these and other new offerings is dependent on several factors, including proper identification of customer needs, cost, timely completion and introduction, differentiation from offerings of the Company's competitors and market acceptance. In addition, new technological innovations generally require a substantial investment before any assurance is available as to their commercial viability, including, in some cases, certification by international and domestic standards-setting bodies.

Reliance On Major Customers

Historically, the Company has relied on a limited number of customers for a substantial portion of its total revenues. In terms of total revenues, the Company's

largest customer has been AT&T, although other large customers may purchase more of any particular system or product line. The contribution of AT&T to the Company's total revenues and percentage of total revenues for the nine months ended September 30, 1996 and years ended December 31, 1995 and 1994 was \$1,970 million (12.4%), \$2,119 million (9.9%) and \$2,137 million (10.8%),

respectively.

In addition, sales to approximately ten network operators (including AT&T), some of which may vary from year to year, constituted approximately 38%, 41% and 42% of total revenues in the years ended December 31, 1995, 1994, and 1993, respectively. The Company has diversified its customer base in the past several years and expects this trend to continue. Nevertheless, the Company expects that a significant portion of its future revenues will continue to be generated by a limited number of customers. See "Business." The loss of any of these customers or any substantial reduction in orders by any of these customers could materially adversely affect the Company's operating results. The United States government is, in the aggregate, also a large customer of the Company. Given the current pressures on the government to reduce its overall level of spending, there can be no assurance that government purchases from the Company will not decrease in the future.

Multi-Year Contracts

In recent years, the purchasing behavior of the Company's large customers has increasingly been characterized by the use of fewer, larger contracts. This trend is expected to intensify, and contributes to the variability of the Company's results. Such larger purchase contracts typically involve longer negotiating cycles, require the dedication of substantial amounts of working capital and other resources, and in general require investments which may substantially precede recognition of associated revenues. Moreover, in return for larger, longer-term purchase commitments, customers often demand more stringent performance and acceptance criteria which can also cause revenue recognition delays and contract termination, as well as financing from the Company. Certain multi-year contracts may involve new technologies which may not have been previously deployed on a large-scale commercial basis. The Company may incur significant initial cost overruns and losses on such contracts which would be recognized in the quarter in which they became ascertainable. Further, profit estimates on such contracts are revised periodically over the lives of the contracts, and such revisions can have a significant impact on reported earnings in any one quarter.

The Company has several significant contracts for the sale of infrastructure systems to network operators which extend over a multi-year period, and expects to enter into similar contracts in the future, with the uncertainties discussed above. One of the Company's multi-year contracts is with Pacific Bell for the provision of a broadband network based on hybrid fiber-coaxial cable technology. In July 1996, the Company and Pacific Bell agreed to modify the terms of the contract so as to resolve issues and potential claims which may have arisen due to implementation difficulties and cost overruns under the contract. The Company's financial statements include reserves to reflect these contract modifications. The Company will continue to assess the adequacy of these reserves.

Seasonality

The Company's sales are highly seasonal with revenue and net income historically concentrated in the fourth quarter of the calendar year. Many of the Company's large customers have historically delayed a disproportionate percentage of their capital expenditures until the fourth quarter of the calendar year. The Company has placed an increased focus on the completion of software releases by mid-year to allow for commercial availability and delivery in the fourth quarter of the calendar year. These software releases require significant research and development expenditures early in the year, with minimal offsetting revenues, but are key contributors to the Company's profits during the fourth quarter of the calendar year. Additionally, sales of consumer products are generally stronger in the fourth quarter, corresponding to holiday buying.

The growing competitive pressures among network operators, along with the increase in software revenues, have resulted in an increasing trend toward seasonality. Consequently, the Company's results of operations for the first three quarters of each calendar year historically have, in the aggregate, been significantly less profitable than the fourth quarter. The Company has reported net losses in the first quarter of

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each calendar year. The change in the Company's fiscal year to the year ending September 30th will place the historically most profitable quarter as the first fiscal quarter.

Change Of Company Brand Name

In connection with the Separation, the Company will, rapidly in the case of some products and over specified periods of time in the case of other products, change the trademarks and trade names under which it conducts its business. The Company believes that its sale of business communications systems to small businesses and sales of consumer products have benefitted from the use of the "AT&T" brand name. The impact of the change in trademarks and trade names and other changes (including, without limitation, restrictions on the use of the "AT&T" brand name and related trade dress) on the Company's business and operations cannot be fully predicted. See "Separation Agreements -- Brand License and Related Matters."

Future Capital Requirements

The Company's working capital requirements and cash flow provided by (or used in) operating activities can vary greatly from quarter to quarter, depending on the volume of production, the timing of deliveries, the build-up of inventories, and the payment terms offered to customers.

Network operators, domestically and internationally, increasingly have required their suppliers to arrange or provide long-term financing for them as a condition to obtaining or bidding on infrastructure projects. These projects may require financing in amounts ranging from modest sums to over a billion dollars. In this regard, the Company entered into a credit agreement in October 1996 to provide Sprint Spectrum LP long-term financing of \$1,800 million for purchasing equipment and services for its PCS network. Payment of quarterly interest on each borrowing may be deferred at the borrower's option for up to two years. (See Note 14 of Notes to Consolidated Financial Statements for a summary of other terms.) The Company is currently discussing with financial institutions potential alternatives to sell loans it may make under the credit agreement, which will depend, among other things, on the market conditions and requirements at the time. The Company has committed to, and is proposing, to provide financing where appropriate for its business, in addition to the Sprint Spectrum LP credit agreement. The ability of the Company to arrange or provide financing for network operators will depend on a number of factors, including the Company's capital structure and level of available credit.

The Company believes that its credit facilities, cash flow from operations and long- and short-term debt financings, will be sufficient to satisfy its future working capital, capital expenditure, research and development and debt service requirements. The Company has a shelf registration statement to register the possible offering from time to time of up to \$2,000 million of long-term debt at September 30, 1996. Although the Company believes that it will be able to access the capital markets on terms and in amounts that will be satisfactory to it, and that it will be able to obtain bid and performance bonds, to arrange or provide customer financing as necessary, and to engage in hedging transactions on commercially acceptable terms, there can be no assurance that the Company will be successful in this regard.

International Growth And Foreign Exchange

The Company intends to continue to pursue growth opportunities in international markets. In many international markets, long-standing relationships between potential customers of the Company and their local providers, and protective regulations, including local content requirements and type approvals, create barriers to entry. In addition, pursuit of such international growth opportunities may require significant investments for an extended period before returns on such investments, if any, are realized. Such projects and investments could be adversely affected by reversals or delays in the opening of foreign markets to new competitors, exchange controls, currency fluctuations, investment policies, repatriation of cash, nationalization, social and political risks, taxation, and other factors, depending on the country in which such opportunity arises.

* SPRINT SPECTRUM is a service mark of Sprint Communications Company, L.P.

A significant change in the value of the dollar against the currency of one or more countries where the Company recognizes substantial revenue or earnings

may materially adversely affect the Company's results. The Company attempts to mitigate any such effects through the use of foreign currency contracts, although there can be no assurances that such attempts will be successful.

Intellectual Property

The Company relies on patent, trademark, trade secret and copyright laws both to protect its proprietary technology and to protect the Company against claims from others. The Company believes that it has direct intellectual property rights or rights under cross-licensing arrangements covering substantially all of its material technologies. Given the technological complexity of the Company's systems and products, however, there can be no assurance that claims of infringement will not be asserted against the Company or against the Company's customers in connection with their use of the Company's systems and products, nor can there be any assurance as to the outcome of any such claims. The Company was assigned ownership of the substantial majority of AT&T's patents in connection with the Separation. Pursuant to the patent license agreement entered into among the Company, AT&T and NCR, the Company has been given rights, subject to specified limitations, to pass through to its customers certain rights under approximately 400 patents retained by AT&T. There can be no assurance that the Company's customers and potential customers will be satisfied with the pass-through rights available to them under the patents retained by AT&T or with any indemnification commitments the Company may be willing to provide in connection therewith. See "Separation Agreements -- Patent Licenses and Related Matters" and "-- Technology Licenses and Related Matters."

OPERATING REVENUE, RESEARCH AND DEVELOPMENT EXPENSE AND FOREIGN AND DOMESTIC OPERATIONS

For information about the consolidated operating revenues contributed by the Company's major classes of products and services, consolidated research and development expenses, and foreign and domestic operations, see revenue tables and discussion on pages 41 through 44, Consolidated Statements of Income on page 49 and Note 8 thereto on pages 60 and 61 of the Company's annual report to security holders for the fiscal year ended September 30, 1996. Such information is incorporated herein by reference pursuant to General Instruction G(2).

EMPLOYEE RELATIONS

At September 30, 1996, the Company employed approximately 124,000 persons, of whom 79% were located in the United States. Of these domestic employees, 46% are represented by unions, primarily the Communications Workers of America and the International Brotherhood of Electrical Workers ("IBEW"). The Company's labor agreements with these unions expire on May 30, 1998. Such unions have made claims against AT&T on behalf of the Company's employees they represent for severance pay as a result of the Distribution and related transactions. The procedure under the labor contracts that these unions have initiated is for the unions to file grievances to be followed by arbitration under the contracts if the matter is not resolved. The IBEW claims are pending decision following hearings in an arbitration proceeding. Under the Separation and Distribution Agreement among AT&T, the Company and NCR dated as of February 1, 1996, and amended and restated as of March 29, 1996, the Company assumed responsibility for liabilities for severance pay which might result from such claims, subject to sharing arrangements under such Agreement. The Company has continued to honor its labor agreements with these unions. Although these claims could be material, if upheld, the Company believes that such claims are without merit and intends to defend against the claims vigorously.

ENVIRONMENTAL MATTERS

The Company's current and historical manufacturing and research operations are subject to a wide range of environmental protection laws in the United States and other countries. In the United States, these laws often require parties to fund remedial action regardless of fault. The Company has remedial and investigatory activities underway at 46 current and former facilities. In addition, the Company 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 terms of the Separation

primarily resulting from or related to the operation of the Company's Business as conducted at any time prior to, on or after the Separation including related businesses discontinued or disposed of prior to the Separation, and the Company's assets including, without limitation, those associated with these sites. In addition, under the Separation and Distribution Agreement, the Company 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. The Company 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 for will be paid out over the period of remediation for the applicable site which ranges 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 the Company's consolidated financial statements in respect of 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 the Company 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 the Company's reserves or will not have a material adverse effect on the financial condition of the Company or the Company'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, 1996 cannot be determined.

On July 31, 1991, the United States Environmental Protection Agency Region III issued a complaint pursuant to Section 3008a of the Resource Conservation and Recovery Act of 1976 alleging violations of various waste management regulations at the Company's Richmond Works in Richmond, Virginia. The complaint alleges violations relating to training, solder dross management, the facility's waste analysis plan and the handling of gold ion exchange resins. The complaint seeks a total of \$4.2 million in penalties. The Company is contesting both liability and the penalties.

In addition, on July 31, 1991, the United States Environmental Protection Agency filed a civil complaint in the U.S. District Court for the Southern District of Illinois against AT&T (with respect to the Company's businesses) and nine other parties seeking enforcement of its CERCLA Section 106 cleanup order, issued in November 1990 for the NL Granite City Superfund site in Granite, Illinois. This complaint seeks past costs, civil penalties of \$25,000 per day and treble damages related to certain United States costs. The Company is contesting liability.

During 1994, AT&T Nassau Metals Corporation ("Nassau"), a wholly owned subsidiary of the Company, and the New York State Department of Environmental Conservation (the "NYSDEC") were engaged in negotiations over a study and cleanup of the Nassau plant located on Richmond Valley Road in Staten Island, New York. During these negotiations, in June 1994, NYSDEC presented Nassau with a draft consent order which included not only provisions for site investigation and remediation but also a provision for payment of a \$3.5 million penalty for alleged violations of hazardous waste management regulations. NYSDEC claims that Nassau improperly engaged in landfilling and storing of lead dust. No formal proceeding has been commenced by NYSDEC. Negotiations and discussions regarding the matter are continuing.

SEPARATION AGREEMENTS

For the purposes of governing certain of the relationships between the Company and AT&T (including NCR) following the Separation and the Distribution, the Company, AT&T and NCR entered into the Separation and Distribution Agreement and the Ancillary Agreements to which they are parties (collectively, the "Separation Agreements"). The Ancillary Agreements include the Interim Services and Systems Replication Agreement;

the General Purchase Agreement and the supplemental agreements related thereto; the Employee Benefits Agreement; the Brand License Agreement; the Patent License Agreement and other patent-related agreements; the Technology License Agreement and other technology-related agreements; the Tax Sharing Agreement and other tax-related agreements; certain agreements providing for the assignment of, and the establishment of transitional arrangements with respect to, real property; and agreements pursuant to which AT&T will provide communications services to the Company and NCR will sell certain products to the Company. Certain of the Separation Agreements, including certain of the Agreements summarized below, have been filed as exhibits to this Form 10-K. Reference is made to such exhibits for the full text of the provisions of those Agreements, and the agreement summaries below are qualified in their entirety by reference to the full text of such Agreements. Capitalized terms used in this section and not otherwise defined in this Form 10-K shall have their respective meanings set forth in the Separation and Distribution Agreement (except that the term "Company" is used in lieu of the term "Lucent") or other Separation Agreement.

Separation And Distribution Agreement

Under the Separation and Distribution Agreement, the Company assumed or agreed to assume, and agreed to perform and fulfill, all the "Lucent Liabilities" (as defined in such Agreement) in accordance with their respective terms. Without limitation, the Lucent Liabilities generally include all liabilities and contingent liabilities relating to Lucent's present and former business and operations, and contingent liabilities otherwise assigned to Lucent; contingent liabilities related to AT&T's discontinued computer operations (other than those of NCR) were assigned to the Company. The Separation and Distribution Agreement provides for the sharing of contingent liabilities not allocated to one of the parties in specified proportions, and 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.

Ability to Terminate Certain Rights. The Separation and Distribution Agreement provides that certain rights granted to the Company and the members of the Company Group will be subject to the following provisions. Except as otherwise expressly provided, in the event that, at any time prior to February 1, 2001, the Company or any member of the Company Group offers, furnishes or provides any Telecommunications Services of the type offered by the AT&T Services Business as of the Closing Date, then AT&T may, in its sole discretion: (a) terminate all or any portion of the rights granted by AT&T under the Brand License Agreement; (b) terminate all or any remaining portion of the purchase commitments made by AT&T and the members of the AT&T Group in the General Purchase Agreement; (c) exercise the right to require the Company to transfer to AT&T certain personnel, information, technology and software under the Supplemental Agreements; (d) terminate all or any portion of the rights to patents and technology of AT&T or any member of the AT&T Group granted to the Company and the members of the Company Group pursuant to the Patent License Agreement and the Technology License Agreement; and (e) direct the Company and the members of the Company Group to reconvey to AT&T all interests in any and all patents and technology in which the Company or any member of the Company Group was granted an undivided one-half interest pursuant to the Patent Assignments or the Technology Assignment and Joint Ownership Agreements. The Company and the members of the Company Group will not be deemed to offer, furnish or provide any Telecommunications Services (and the foregoing provisions will not apply) solely by virtue of certain specified investments in Persons that offer, furnish or provide Telecommunications Services or by virtue of offering, furnishing or providing Telecommunications Services below a specified de minimis amount.

Employee Benefits Agreement

AT&T and the Company entered into the Employee Benefits Agreement that governs the employee benefit obligations of the Company, including both compensation and benefits, with respect to active employees and retirees assigned to the Company. Pursuant to the Employee Benefits Agreement, the Company assumed and agreed to pay, perform, fulfill and discharge, in accordance with their respective terms, all Liabilities (as defined) to, or relating to, former employees of AT&T or its affiliates employed by the Company and its affiliates and certain former employees of AT&T or its affiliates (including retirees) who either were employed in the Company Business (as defined) or who otherwise are assigned to the Company for purposes of allocating employee benefit obligations (including all retirees of Bell Labs).

Brand License And Related Matters

The Company and AT&T entered into the Brand License Agreement pursuant to which the Company has rights, on a royalty-free basis, to continue to use the AT&T brand (including the AT&T globe design) for specified transition periods following April 10, 1996. Under the Brand License Agreement, the Company will be entitled to use the AT&T brand, alone or in combination with the Company's brand, for the sale of consumer products and services and business communications systems and services until April 10, 1997. The Company will be entitled to continue to use the AT&T brand on these products, systems and services, but only in combination with the Company's brand, for an additional three-year period. The right to use the AT&T brand, alone or in combination with the Company's brand, in connection with certain leased products or maintenance contracts will extend until October 10, 2001. In addition, the Company may use the AT&T brand after these time periods to the extent necessary to deplete pre-existing inventory. Subject to certain conditions set forth in the Brand License Agreement, the Company may also extend these rights to use the AT&T brand to authorized dealers of the Company's products, systems and services.

Neither the Company nor any of its authorized dealers is permitted to, during the period it is using the AT&T brand, provide, offer or market telecommunications services provided by any person other than AT&T with certain exceptions. AT&T may terminate the Brand License Agreement in the event of a significant breach (as defined therein), including in the event of a change of control of the Company.

Patent Licenses And Related Matters

The Company, AT&T and NCR executed and delivered assignments and other agreements, including a patent license agreement, related to patents then owned or controlled by AT&T and its subsidiaries. The patent assignments divided ownership of patents, patent applications and foreign counterparts among the Company, AT&T and NCR, with the substantial portion of those then owned or controlled by AT&T and its subsidiaries (other than NCR) being assigned to the Company. A small number of the patents assigned to the Company are jointly owned with either AT&T or NCR. Certain of the patents that the Company jointly owns with AT&T are subject to a joint ownership agreement under which each of the Company and AT&T has full ownership rights in the patents. The other patents that the Company jointly owns with AT&T, and the patents that the Company jointly owns with NCR, are subject to defensive protection agreements with AT&T and NCR, respectively, under which the Company holds most ownership rights in the patents exclusively. Under these defensive protection agreements, AT&T or NCR, as the case may be, has the ability, subject to specified restrictions, to assert infringement claims under the patents against companies that assert patent infringement claims against them, and has consent rights in the event the Company wishes to license the patents to certain third parties or for certain fields of use under specified circumstances. The defensive protection agreements also provide for one-time payments from AT&T and NCR to the Company.

The patent license agreement entered into by the Company, AT&T and NCR provides for royalty-free cross-licenses to each company, under each of the other company's patents that are covered by the licenses, to use, lease, sell and import any and all products and services of the businesses in which the licensed company (including specified related companies) is now or hereafter engaged. The cross-licenses also permit each company, subject to specified limitations, to have third parties make items under the other companies' patents, as well as to pass through to customers certain rights under the other companies' patents with respect to products and services furnished to customers by the licensed company. In addition, the rights granted to the Company and AT&T include the right to license third parties under each of the other company's patents to the extent necessary to meet existing patent licensing obligations and AT&T has the right, subject to specified restrictions and procedures, to seek sublicensing of a limited number of identified patents to be assigned to the Company.

Technology Licenses And Related Matters

The Company, AT&T and NCR executed and delivered assignments and other agreements, including the Technology License Agreement, related to technology then owned or controlled by AT&T and its subsidiaries. Technology includes copyrights, mask works and other intellectual property other than trademarks,

trade names, trade dress, service marks and patent rights. The technology assignments divide ownership of

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technology among the Company, AT&T and NCR, with the Company and AT&T owning technology that was developed by or for, or purchased by, the Company's business or AT&T's services business, respectively, and NCR owning technology that was developed by or for, or purchased by, NCR. Technology that is not covered by any of these categories is owned jointly by the Company and AT&T or, in the case of certain specified technology, owned jointly by the Company, AT&T and NCR.

The Technology License Agreement entered into by the Company, AT&T and NCR provides for royalty-free cross-licenses to each company to use the other companies' technology existing as of April 10, 1996, except for specified portions of each company's technology as to which use by the other companies is restricted or prohibited.

ITEM 2. PROPERTIES.

At September 30, 1996, the Company operated 58 manufacturing and repair sites, of which 23 were located in the United States, occupying in excess of 20.0 million square feet, of which approximately 1.1 million square feet were leased. The remaining 35 sites were located in 19 countries.

At September 30, 1996, the Company operated 109 warehouse sites, of which 82 were located in the United States, occupying in excess of 3.0 million square feet, substantially all of which were leased. The remaining 27 sites were located in 16 countries.

At September 30, 1996, the Company operated 882 office sites (administration, sales, field service), of which 677 were located in the United States, occupying in excess of 19.0 million square feet, substantially all of which were leased. The remaining 205 sites were located in 47 countries.

At September 30, 1996, the Company operated additional sites in 15 cities, of which 14 were located in the United States, with significant research and development activities, occupying in excess of 9.0 million square feet, of which approximately 1.4 million square feet were leased.

The Company believes its plants and facilities are suitable and adequate, and have sufficient productive capacity, to meet its current needs.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business, the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. (Also see Item 1. "Business -- Separation Agreements -- Separation and Distribution Agreement" regarding the assumption by the Company of certain liabilities and contingent liabilities.) All such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at September 30, 1996. While these matters could affect operating results of any one quarter when resolved in future periods and, while there can be no assurance with respect thereto, it is management's opinion that after final disposition, any monetary liability or financial impact to the Company beyond that provided in the consolidated balance sheet at September 30, 1996 would not be material to the Company's annual consolidated financial statements.

On February 14, 1996, Bell Atlantic Corporation and DSC Communications Corporation filed a complaint against AT&T and the Company in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that AT&T or the Company has monopolized or attempted to monopolize alleged markets for communications transmission equipment, related software and caller identification services. The complaint seeks injunctive relief and damages, after trebling, in excess of \$3,500 million. AT&T and the Company do not believe that the complaint has merit and intend to defend the lawsuit vigorously. This matter has been set for trial in March 1997.

See also the discussion in Item 1. "Business -- Employee Relations" and "--

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

No matter was submitted to a vote of security holders in the final quarter of the fiscal year covered by this report.

Executive Officers of the Registrant
(as of December 1, 1996)

<TABLE>
<CAPTION>

Name ----	Age ---	Position	Became Lucent Executive Officer On
<S>	<C>	<C>	<C>
Henry B. Schacht*	62	Chairman of the Board and Chief Executive Officer	.2-96
Richard A. McGinn*	50	President and Chief Operating Officer	.2-96
Curtis R. Artis	48	Senior Vice President, Human Resources	.2-96
Gerald J. Butters	53	President, North American Region, Network Systems	.2-96
Joseph S. Colson, Jr.	49	President, AT&T Customer Business Unit, Network Systems	.2-96
Curtis J. Crawford	49	President, Microelectronics	.2-96
Carleton S. Fiorina	42	President, Consumer Products	.2-96
William T. O'Shea	49	President, International, Network Systems	.2-96
Donald K. Peterson	47	Executive Vice President and Chief Financial Officer	.2-96
Richard J. Rawson	44	Senior Vice President, General Counsel and Secretary	.2-96
Patricia F. Russo(1)	44	Executive Vice President and Chief Staff Officer	.2-96
Daniel C. Stanzione	51	President, Network Systems; President, Bell Laboratories	.2-96

</TABLE>

* Member of the Board of Directors.

(1) Also, continuing as President, Business Communications Systems, for an interim period.

All of the above executive officers have held high level managerial positions with the Company and prior thereto with AT&T or its affiliates for more than the past five years, except in the case of Messrs. Schacht, Butters and Peterson since February 1, 1996, January 15, 1994 and September 1, 1995, respectively. Mr. Schacht was Chief Executive Officer (1973-1994) and Chairman of the Board (1977-1995) of Cummins Engine Company, Inc., a manufacturer of

diesel engines, and a member of the AT&T Board of Directors (1981-1996). Prior to joining AT&T, Mr. Butters was President of Northern Telecom, Inc., a telecommunications company, from January 1993 to January 1994 and prior thereto was Executive Vice President, Sales and Service, from February 1992 to January 1993 and Executive Vice President, Public Networks, from January 1991 to February 1992, both of Northern Telecom, Inc. Mr. Peterson held various senior executive positions at Northern Telecom, Inc. which included President of Nortel

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Communications Systems, Inc. (from January 1993 to September 1995), Vice President of Finance of Northern Telecom, Inc. (from January 1991 to January 1993) and Group Vice President of Northern Telecom, Inc. (from September 1987 to January 1991).

Officers are not elected for a fixed term of office but hold office until their successors have been elected.

PART II

Items 5. through 8.

The information required by these items is included in pages 38 through 68 of the Company's annual report to security holders for the fiscal year ended September 30, 1996. The referenced pages of the Company's annual report to security holders have been filed as Exhibit 13 to this document. Such information is incorporated herein by reference, pursuant to General Instruction G(2). As of November 30, 1996, there were approximately 1,900,000 shareholders of record.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

PART III

Items 10. through 13.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors and officers to file reports of holdings and transactions in the Company's Common Shares with the Securities and Exchange Commission ("SEC") and the New York Stock Exchange. Based on Company records and other information, the Company believes that all SEC filing requirements applicable to its Directors and officers with respect to the Company's fiscal year ending September 30, 1996 were complied with except one filing by Curtland E. Fields, a former Director of the Company, who inadvertently filed late because he did not receive timely information about his Section 16 responsibilities when he was named by AT&T to replace another AT&T nominee who resigned from the Company Board.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure in Part I of this report because the Company did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

The other information required by Items 10 through 13 is included in the Company's definitive proxy statement dated December 30, 1996, on page 7 and page 10 through page 29. Such information is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as a part of the report:

(1) Financial Statements:

<TABLE>
<CAPTION>

<S>	Pages
Report of Management	<C>
Report of Independent Auditors	*

</TABLE>

* Incorporated herein by reference to the appropriate portions in pages 48 through 67 of the Company's annual report to security holders for the fiscal year ended September 30, 1996. (See Part II.)

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<TABLE>

<S>	Statements:	<C>
	Consolidated Statements of Income	*
	Consolidated Balance Sheets	*
	Consolidated Statements of Changes in Shareowner's Equity.....	*
	Consolidated Statements of Cash Flows	*
	Notes to Consolidated Financial Statements	*
(2)	Financial Statement Schedules:	
	Report of Independent Auditors	23
	Schedules:	
	II -- Valuation and Qualifying Accounts	24

</TABLE>

Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons are omitted since no such entity constitutes a "significant subsidiary" pursuant to the provisions of Regulation S-X, Article 3-09.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

<TABLE>
<CAPTION>
Exhibit
Number

<S>	<C>
(3) (i)	Articles of Incorporation of the registrant, as amended April 8, 1996 (Exhibit 3(i) to Form 8-K dated July 18, 1996, File No. 001-11639).
(3) (ii)	By-Laws of the registrant, as amended July 17, 1996 (Exhibit 3(ii) to Form 8-K dated July 18, 1996, File No. 001-11639).
(4) (a)	Indenture dated as of April 1, 1996 between Lucent Technologies Inc. and the Bank of New York, as Trustee (Exhibit 4A to Registration Statement on Form S-3 No. 333-01223).
(4) (b)	Other instruments in addition to Exhibit 4(a) which define the rights of holders of long term debt, of the registrant and all of its consolidated subsidiaries, are not filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
(10) (i) 1	Separation and Distribution Agreement by and among Lucent Technologies Inc., AT&T Corp. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.1 to Registration Statement on Form S-1 No. 333-00703).
(10) (i) 2	Tax Sharing Agreement by and among Lucent Technologies Inc., AT&T Corp. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.6 to Registration Statement on Form S-1 No. 333-00703).
(10) (i) 3	Employee Benefits Agreement by and between AT&T and Lucent Technologies Inc., dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.2 to Registration

Statement on Form S-1 No. 333-00703).

(10) (i) 4 Lucent Technologies Inc. Operating Agreement between Lucent Technologies and AT&T Capital Corporation, dated as of April 2, 1996 (Exhibit 10.13 to Registration Statement on Form S-1 No. 333-00703).

(10) (i) 5 Rights Agreement between Lucent Technologies Inc. and First Chicago Trust Company of New York, as Rights Agent, dated as of April 4, 1996 (Exhibit 4.2 to Registration Statement on Form S-1 No. 333-00703).

</TABLE>

21

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<TABLE>

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<C>

(10) (ii) (B) 1 General Purchase Agreement by and between AT&T Corp. and Lucent Technologies Inc., dated February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.3 to Registration Statement on Form S-1 No. 333-00703).

(10) (ii) (B) 2 Interim Services and Systems Replication Agreement by and among AT&T, Lucent Technologies Inc. and NCR, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.4 to Registration Statement on Form S-1 No. 333-00703).

(10) (ii) (B) 3 Brand License Agreement by and between Lucent Technologies Inc. and AT&T, dated as of February 1, 1996 (Exhibit 10.5 to Registration Statement on Form S-1 No. 333-00703).

(10) (ii) (B) 4 Patent License Agreement among AT&T, NCR and Lucent Technologies Inc., effective as of March 29, 1996 (Exhibit 10.7 to Registration Statement on Form S-1 No. 333-00703).

(10) (ii) (B) 5 Amended and Restated Technology License Agreement among AT&T, NCR and Lucent Technologies Inc., effective as of March 29, 1996 (Exhibit 10.8 to Registration Statement on Form S-1 No. 333-00703).

(10) (iii) (A) 1 Lucent Technologies Inc. Long Term Incentive Program.

(10) (iii) (A) 2 Lucent Technologies Inc. Deferred Compensation Plan for Non-Employee Directors.

(10) (iii) (A) 3 Pension Plan for Lucent Non-Employee Directors (Exhibit 10.11 to Registration Statement on Form S-1 No. 333-00703).

(10) (iii) (A) 4 Lucent Technologies Inc. Stock Retainer Plan for Non-Employee Directors (Exhibit 10.12 to Registration Statement on Form S-1 No. 333-00703).

(10) (iii) (A) 5 Lucent Technologies Inc. Excess Benefit and Compensation Plan.

(10) (iii) (A) 6 Lucent Technologies Inc. Mid-Career Pension Plan.

(10) (iii) (A) 7 Lucent Technologies Inc. Non-Qualified Pension Plan.

(10) (iii) (A) 8 Lucent Technologies Inc. Officer Long-Term Disability and Survivor Protection Plan.

(10) (iii) (A) 9 Lucent Technologies Inc. Officer Incentive Award Deferral Plan.

(12) Computation of Ratio of Earnings to Fixed Charges.

(13) Specified portions (pages 38 through 68) of the Company's Annual Report to security holders for the year ended September 30, 1996.

(21) List of subsidiaries of Lucent Technologies Inc.

(23) Consent of Coopers & Lybrand L.L.P.

(24) Powers of Attorney executed by officers and directors who signed this report.

(27) Financial Data Schedule.

The Company will furnish, without charge, to a security holder upon request a copy of the annual report to security holders and the proxy statement, portions of which are incorporated herein by reference thereto. The Company will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

Form 8-K dated July 18, 1996 was filed pursuant to Items 5 (Other Events), 7(c) (Exhibits), and 8 (Change in Fiscal Year).

Form 8-K dated September 6, 1996 was filed pursuant to Item 7(c) (Exhibits).

REPORT OF INDEPENDENT AUDITORS

To the Shareowners of Lucent Technologies Inc.:

Our report on the consolidated financial statements of Lucent Technologies Inc. and subsidiaries has been incorporated by reference in this Form 10-K from page 48 of the 1996 Annual Report to the Shareowners of Lucent Technologies Inc. In connection with our audits of such financial statements, we have also audited the related consolidated financial statement schedule listed in the index on page 21 of this Form 10-K.

In our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

New York, New York
October 24, 1996

Lucent Technologies Inc.
Schedule II - Valuation and Qualifying Accounts
In Millions

<TABLE>

<CAPTION>

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	-----Additions----- Charged to Costs & Expenses	Charged to Other Accounts	Deductions (a)	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
Year 1996					
Allowance for doubtful accounts	248	64	-	39	273
Reserves related to business restructuring and facility consolidation	1,907	(98) (b)	-	520 (b)	1,289
Deferred tax asset valuation allowance	142	7	102 (d)	43	208
Inventory valuation	790	92	9	247	644

<TABLE>

<S>

<C>

- (10) (ii) (B) 1 General Purchase Agreement by and between AT&T Corp. and Lucent Technologies Inc., dated February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.3 to Registration Statement on Form S-1 No. 333-00703).
- (10) (ii) (B) 2 Interim Services and Systems Replication Agreement by and among AT&T, Lucent Technologies Inc. and NCR, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.4 to Registration Statement on Form S-1 No. 333-00703).
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- (10) (iii) (A) 3 Pension Plan for Lucent Non-Employee Directors (Exhibit 10.11 to Registration Statement on Form S-1 No. 333-00703).
- (10) (iii) (A) 4 Lucent Technologies Inc. Stock Retainer Plan for Non-Employee Directors (Exhibit 10.12 to Registration Statement on Form S-1 No. 333-00703).
- (10) (iii) (A) 5 Lucent Technologies Inc. Excess Benefit and Compensation Plan.
- (10) (iii) (A) 6 Lucent Technologies Inc. Mid-Career Pension Plan.
- (10) (iii) (A) 7 Lucent Technologies Inc. Non-Qualified Pension Plan.
- (10) (iii) (A) 8 Lucent Technologies Inc. Officer Long-Term Disability and Survivor Protection Plan.
- (10) (iii) (A) 9 Lucent Technologies Inc. Officer Incentive Award Deferral Plan.
- (12) Computation of Ratio of Earnings to Fixed Charges.
- (13) Specified portions (pages 38 through 68) of the Company's Annual Report to security holders for the year ended September 30, 1996.
- (21) List of subsidiaries of Lucent Technologies Inc.
- (23) Consent of Coopers & Lybrand L.L.P.
- (24) Powers of Attorney executed by officers and directors who signed this report.
- (27) Financial Data Schedule.

</TABLE>

LUCENT TECHNOLOGIES INC. 1996 LONG TERM INCENTIVE PROGRAM

Adopted April 3, 1996,
As Amended September 18, 1996

SECTION 1. PURPOSE. The purposes of the Lucent Technologies Inc. 1996 Long Term Incentive Program (the "Plan") are to encourage selected key employees of Lucent Technologies Inc. (the "Company") and its Affiliates to acquire a proprietary and vested interest in the growth and performance of the Company, to generate an increased incentive to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of share owners, and to enhance the ability of the Company and its Affiliates to attract and retain individuals of exceptional managerial talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depends.

SECTION 2. DEFINITIONS. As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any Person that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company or (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Performance Share, Performance Unit, Dividend Equivalent, Other Stock Unit Award, or any other right, interest, or option relating to Shares or other securities of the Company granted pursuant to the provisions of the Plan.

(c) "Award Agreement" shall mean any written agreement, contract, or other instrument or document evidencing any Award granted by the Committee hereunder and signed by both the Company and the Participant.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Change in Control" shall mean the happening of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13 (d) (3) or 14 (d) (2) of the Exchange Act) (an "Entity") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding

Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition

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by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this Section 2(e), or (5) any acquisition by AT&T Corp. or any of its Affiliates prior to the Effective Date; or

(ii) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that for purposes of this definition, that any individual who becomes a member of the Board subsequent to the Effective Date, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; and provided, further however, that any such individual whose initial assumption of office occurs as a result of or in connection with either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an Entity other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) The approval by the stockholders of the Company of a merger, reorganization or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a "Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding however, such a Corporate Transaction pursuant to which (A) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation or other Person which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries (a "Parent Company")) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Entity (other than the Company, any employee benefit

plan (or related trust) of the Company, such corporation resulting from such Corporate Transaction or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the

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applicable Corporate Transaction, such Parent Company) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to the Corporate Transaction, and (C) individuals who were members of the Incumbent Board will immediately after the consummation of the Corporate Transaction constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction (or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, of the Parent Company); or

(iv) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(f) "Change in Control Price" means the higher of (A) the highest reported sales price, regular way, of a Share in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which Shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control or (B) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per Share paid in such tender or exchange offer or Corporate Transaction; provided however, that in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, the Change in Control Price shall be in all cases the Fair Market Value of a Share on the date such Incentive Stock Option or Stock Appreciation Right is exercised or deemed exercised. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined in the sole discretion of the Board.

(g) "Closing Date" shall have the meaning given in the Separation and Distribution Agreement among AT&T Corp., the Company and NCR Corporation dated as of February 1, 1996, as amended, modified or otherwise supplemented.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(i) "Committee" shall mean the Compensation Subcommittee of the Executive, Corporate Governance and Compensation Committee of the Board, composed of no fewer than three directors, each of whom is a Non-Employee

Director and an "outside director" within the meaning of Section 162(m) of the Code.

(j) "Company" shall mean Lucent Technologies Inc., a Delaware corporation.

Page 3

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(k) "Covered Employee" shall mean a "covered employee" within the meaning of Section 162(m) (3) of the Code.

(l) "Dividend Equivalent" shall mean any right granted pursuant to Section 14(h) hereof.

(m) "Effective Date" shall mean "Immediately after the Distribution Date," as that term is defined in the Employee Benefits Agreement between AT&T Corp. and the Company dated as of February 1, 1996, as amended, modified or otherwise supplemented.

(n) "Employee" shall mean any employee of the Company or of any Affiliate. Unless otherwise determined by the Committee in its sole discretion, for purposes of the Plan, an Employee shall be considered to have terminated employment and to have ceased to be an Employee if his or her employer ceases to be an Affiliate, even if he or she continues to be employed by such employer.

(o) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(p) "Fair Market Value" shall mean, with respect to any property, the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

(q) "Incentive Stock Option" shall mean an Option granted under Section 6 hereof that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(r) "Non-Employee Director" means a member of the Board who qualifies as a Non-Employee Director as defined in Rule 16b-3(b) (3) promulgated by the Securities and Exchange Commission under the Exchange Act or any successor definition adopted by the Securities and Exchange Commission.

(s) "Nonstatutory Stock Option" shall mean an Option granted under Section 6 hereof that is not intended to be an Incentive Stock Option.

(t) "Option" shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

(u) "Other Stock Unit Award" shall mean any right granted to a Participant by the Committee pursuant to Section 10 hereof.

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(v) "Participant" shall mean an Employee who is selected by the Committee to receive an Award under the Plan.

(w) "Performance Award" shall mean any Award of Performance Shares or Performance Units pursuant to Section 9 hereof.

(x) "Performance Period" shall mean that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

(y) "Performance Share" shall mean any grant pursuant to Section 9 hereof of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including, without limitation, cash, Shares, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(z) "Performance Unit" shall mean any grant pursuant to Section 9 hereof of a unit valued by reference to a designated amount of property other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including, without limitation, cash, Shares, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(Aa) "Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, limited liability company, other entity or government or political subdivision thereof.

(Bb) "Restricted Stock" shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge, or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Share, and the right to receive any cash dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

(Cc) "Restricted Stock Award" shall mean an award of Restricted Stock under Section 8 hereof.

(Dd) "Senior Manager" shall mean any manager of the Company or any Affiliate holding a position above E band or any future salary grade that is the equivalent thereof.

(Ee) "Shares" shall mean the shares of common stock, \$.01 par value, of the Company and such other securities of the Company as the Committee may from time to time determine.

(Ff) "Stock Appreciation Right" shall mean any right granted to a Participant pursuant to Section 7 hereof to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise or, if the Committee shall so determine in the case of any such right other than one related to any Incentive Stock Option, at any time during a specified period before the date of exercise over (ii) the grant price of the right on the date of grant, or if granted in connection with an outstanding Option on the date of grant of the related Option, as specified by the Committee in its sole discretion, which, other than in the case of Substitute Awards, shall not be less than the Fair Market Value of one Share on such date of grant of the right or the related Option, as the case may be. Any payment by the Company in respect of such right may be made in cash, Shares, other property, or any combination thereof, as the Committee, in its sole discretion, shall determine.

(Gg) "Substitute Award" is defined in Section 4(a).

SECTION 3. ADMINISTRATION. The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees of the Company and its Affiliates to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Award to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property or canceled or suspended; (vi) determine whether, to what extent and under what circumstances cash, Shares and other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the Participant; (vii) interpret and administer the Plan and any instrument or agreement entered into under the Plan; (viii) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Decisions of the Committee shall be final, conclusive and binding upon all persons, including the Company, any Participant, any stockholder, and any employee of the Company or of any Affiliate. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.

SECTION 4. SHARES SUBJECT TO THE PLAN.

(a) Subject to adjustment as provided in Section 4(b), the total number of Shares available for grant under the Plan in the 1996 calendar year shall be one and two-tenths percent (1.2%) of the total outstanding Shares immediately after the Closing Date, and in each calendar year thereafter shall be one and two-tenths percent (1.2%) of the total outstanding Shares as of the first day of such year for which the Plan is in effect; provided that such number shall be increased in any year by the number of Shares available for grant hereunder in previous years but not covered by Awards granted hereunder in such years; and provided, further, that if any Shares subject to an Award are forfeited or if any Award based on Shares otherwise terminated without issuance of such Shares or other consideration in lieu of such Shares, the Shares subject to such Award shall to the extent of such forfeiture or termination, again be available for awards under the Plan if no Participant shall have received any benefits of ownership in respect thereof; and provided further that no more than fifty million (50,000,000) Shares shall be cumulatively available for the grant of Incentive Stock Options under the Plan; and provided further that no Participant may be granted Awards in any one calendar year with respect to more than one million (1,000,000) Shares. In addition, Awards granted or Shares issued by the Company (i) pursuant to the Employee Benefits Agreement, by and between the Company and AT&T Corp., dated as of February 1, 1996, as amended, supplemented or otherwise modified from time to time or (ii) through the assumption of, or in substitution or exchange for, employee benefit awards or the right or obligation to make future employee benefit awards, in connection with the acquisition of another corporation or business entity (clauses (i) and (ii) collectively, the "Substitute Awards") shall not reduce the shares available for grants under the Plan or to a Participant in any calendar year. Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, reverse stock split, spin off or similar transaction or other change in corporate structure affecting the Shares, such adjustments and other substitutions shall be made to the Plan and to Awards as the Committee in its sole discretion deems equitable or appropriate, including without limitation such adjustments in the aggregate number, class and kind of Shares which may be delivered under the Plan, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of Shares subject to outstanding Options, Stock Appreciation Rights or other Awards granted under the Plan, and in the number, class and kind of Shares subject to, Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Committee may determine to be appropriate in its sole discretion, provided that the number of Shares or other securities subject to any Award shall always be a whole number.

SECTION 5. ELIGIBILITY. Any Employee (excluding any member of the Committee) shall be eligible to be selected as a Participant.

SECTION 6. STOCK OPTIONS. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option granted under the Plan shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. Any such Option shall be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable:

(a) OPTION PRICE. The purchase price per Share purchasable under an Option shall be determined by the Committee in its sole discretion; provided that except in the case of an Option pursuant to a Substitute Award, such purchase price shall not be less than the Fair Market Value of the Share on the date of the grant of the Option.

(b) OPTION PERIOD. The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Incentive Stock Option shall be exercisable after the expiration of ten years from the date the Option is granted.

(c) EXERCISABILITY. Options shall be exercisable at such time or times as determined by the Committee at or subsequent to grant. Unless otherwise determined by the Committee at or subsequent to grant, no Incentive Stock Option shall be exercisable during the year ending on the day before the first anniversary date of the granting of the Incentive Stock Option.

(d) METHOD OF EXERCISE. Subject to the other provisions of the Plan and any applicable Award Agreement, any Option may be exercised by the Participant in whole or in part at such time or times, and the Participant may make payment of the option price in such form or forms, including, without limitation, payment by delivery of cash, Shares or other consideration (including, where permitted by law and the Committee, Awards) having a Fair Market Value on the exercise date equal to the total option price, or by any combination of cash, Shares and other consideration as the Committee may specify in the applicable Award Agreement.

(e) INCENTIVE STOCK OPTIONS. In accordance with rules and procedures established by the Committee, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options held by any Participant which are exercisable for the first time by such Participant during any calendar year under the Plan (and under any other benefit plans of the Company or of any parent or subsidiary corporation of the Company) shall not exceed \$100,000 or, if different, the maximum limitation in effect at the time of grant under Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. The terms of any Incentive Stock Option granted hereunder shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder.

(f) FORM OF SETTLEMENT. In its sole discretion, the Committee may provide, at the time of grant, that the shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities, or may reserve the right so to provide after the time of grant.

SECTION 7. STOCK APPRECIATION RIGHTS. Stock Appreciation Rights may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each recipient. Any Stock Appreciation Right related to a Nonstatutory Stock Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. Any Stock Appreciation Right related to an Incentive Stock Option must be granted at the same time such Option is granted. In the case of any Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of shares not covered by the Stock Appreciation Right. Any Option related to any Stock Appreciation Right shall no longer be exercisable to the extent the related Stock Appreciation Right has been exercised. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

SECTION 8. RESTRICTED STOCK.

(a) ISSUANCE. Restricted Stock Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The provisions of Restricted Stock Awards need not be the same with respect to each recipient.

(b) REGISTRATION. Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded under the Plan, such certificate shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award.

(c) FORFEITURE. Except as otherwise determined by the Committee at the time of grant, upon termination of employment for any reason during the restriction period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Participant and reacquired by the Company; provided that except as provided in

Section 12, in the event of a Participant's retirement, permanent disability, other termination of employment or death, or in cases of special circumstances, the Committee may, in its sole discretion, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to such Participant's shares of Restricted Stock. Unrestricted Shares, evidenced in such manner as the Committee shall deem appropriate, shall be issued to the grantee promptly after the period of forfeiture, as determined or modified by the Committee, shall expire.

SECTION 9. PERFORMANCE AWARDS. Performance Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. Except as provided in Section 11, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property or any combination thereof, in the sole discretion of the Committee at the time of payment. The performance levels to be achieved for each Performance Period and the amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period. The maximum value of the property, including cash, that may be paid or distributed to any Participant pursuant to a grant of Performance Units made in any one calendar year shall be \$10,000,000.

SECTION 10. OTHER STOCK UNIT AWARDS.

(a) STOCK AND ADMINISTRATION. Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property ("Other Stock Unit Awards") may be granted hereunder to Participants, either alone or in addition to other Awards granted under the Plan. Other Stock Unit Awards may be paid in Shares, other securities of the Company, cash or any other form of property as the Committee shall determine. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Employees of the Company and its Affiliates to whom and the time or times at which such Awards shall be made, the number of shares of Stock to be granted pursuant to such Awards, and all other conditions of the Awards. The provisions of Other Stock Unit Awards need not be the same with respect to each recipient.

(b) TERMS AND CONDITIONS. Shares (including securities convertible into Shares) granted under this Section 10 may be issued for no cash consideration or for such minimum consideration as may be required by applicable law; Shares (including securities convertible into Shares) purchased pursuant to a purchase right awarded under this Section 10 shall be purchased for such consideration as the Committee shall

in its sole discretion determine, which shall not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is awarded.

SECTION 11. CHANGE IN CONTROL PROVISIONS.

(a) IMPACT OF EVENT. Notwithstanding any other provision of the Plan to the contrary, unless the Committee shall determine otherwise at the time of grant with respect to a particular Award, in the event of a Change in Control:

(i) Any Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant.

(ii) The restrictions and deferral limitations applicable to any Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and limitations and become fully vested and transferable to the full extent of the original grant.

(iii) All Performance Awards shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Awards shall be immediately settled or distributed.

(iv) The restrictions and deferral limitations and other conditions applicable to any Other Stock Awards or any other Awards shall lapse, and such Other Stock Awards or such other Awards shall become free of all restrictions, limitations or conditions and become fully vested and transferable to the full extent of the original grant.

(b) CHANGE IN CONTROL CASH-OUT. Notwithstanding any other provision of the Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), if the Committee shall determine at, or at any time after, the time of grant, a Participant holding an Option shall have the right, whether or not the Option is fully exercisable and in lieu of the payment of the purchase price for the Shares being purchased under the Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Option to the Company and to receive cash, within 30 days of such notice, in an amount equal to the amount by which the Change in Control Price per Share on the date of such election shall exceed the purchase price per Share under the Option (the "Spread") multiplied by the number of Shares granted under the Option as to which the right granted under this Section 11(b) shall have been exercised.

(c) Notwithstanding any other provision of this Plan, if any right granted pursuant to this Plan would make a Change in Control transaction ineligible for pooling-of-interests accounting under APB No. 16 that (after

giving effect to any other actions taken to cause such transaction to be eligible for such pooling-of-interests accounting

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treatment) but for the nature of such grant would otherwise be eligible for such accounting treatment, the Committee shall have the ability to substitute for the cash payable pursuant to such right Shares with a Fair Market Value equal to the cash that would otherwise be payable pursuant thereto.

SECTION 12. CODE SECTION 162(M) PROVISIONS.

(a) Notwithstanding any other provision of this Plan, if the Committee determines at the time Restricted Stock, a Performance Award or an Other Stock Unit Award is granted to a Participant that such Participant is, or is likely to be at the time he or she recognizes income for federal income tax purposes in connection with such Award, a Covered Employee, then the Committee may provide that this Section 12 is applicable to such Award.

(b) If an Award is subject to this Section 12, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, operating income, revenues, gross margin, return on operating assets, return on equity, economic value added, stock price appreciation, total stockholder return (measured in terms of stock price appreciation and dividend growth), or cost control, of the Company or the Affiliate or division of the Company for or within which the Participant is primarily employed. Such Performance Goals also may be based upon the attaining of specified levels of Company performance under one or more of the measures described above relative to the performance of other corporations. Such performance goals shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code and the regulations thereunder.

(c) Notwithstanding any provision of this Plan other than Section 11, with respect to any Award that is subject to this Section 12, the Committee may not adjust upwards the amount payable pursuant to such Award, nor may it waive the achievement of the applicable performance goals except in the case of the death or disability of the Participant.

(d) The Committee shall have the power to impose such other restrictions on Awards subject to this Section 12 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m) (4) (B) of the Code or any successor thereto.

SECTION 13. AMENDMENTS AND TERMINATION. The Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be

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theretofore granted, without the optionee's or Participant's consent, or that without the approval of the Stockholders would:

(a) except as is provided in Section 4(b) of the Plan, increase the total number of shares reserved for the purpose of the Plan; or

(b) change the employees or class of employees eligible to participate in the Plan.

The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but no such amendment shall impair the rights of any Participant without his consent. The Committee may also substitute new Awards for previously granted Awards, including without limitation previously granted Options having higher option prices.

SECTION 14. GENERAL PROVISIONS.

(a) Unless the Committee determines otherwise at the time the Award is granted, no Award, and no Shares subject to Awards described in Section 10 which have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, except by will or by the laws of descent and distribution; provided that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant. Each Award shall be exercisable, during the Participant's lifetime, only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative.

(b) The term of each Award shall be for such period of months or years from the date of its grant as may be determined by the Committee; provided that in no event shall the term of any Incentive Stock Option or any Stock Appreciation Right related to any Incentive Stock Option exceed a period of ten (10) years from the date of its grant.

(c) No Employee or Participant shall have any claim to be granted any Award under the Plan and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

(d) The prospective recipient of any Award under the Plan shall not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient shall have executed an agreement or other instrument evidencing the Award and delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions.

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(e) Except as provided in Section 12, the Committee shall be authorized to make adjustments in Performance Award criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry it into effect. In the event the Company shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

(f) The Committee shall have full power and authority to determine whether, to what extent and under what circumstances any Award shall be canceled or suspended. In particular, but without limitation, all outstanding Awards to any Participant shall be canceled if the Participant, without the consent of the Committee, while employed by the Company or after termination of such employment, becomes associated with, employed by, renders services to, or owns any interest in (other than any nonsubstantial interest, as determined by the Committee), any business that is in competition with the Company or with any business in which the Company has a substantial interest as determined by the Committee or any one or more Senior Managers or committee of Senior Managers to whom the authority to make such determination is delegated by the Committee.

(g) All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(h) The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of this Plan and any Award Agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, interest or dividends, or interest or dividend equivalents, with respect to the number of shares covered by the Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested.

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(i) Except as otherwise required in any applicable Award Agreement or by the terms of the Plan, recipients of Awards under the Plan shall not be

required to make any payment or provide consideration other than the rendering of services.

(j) The Committee may delegate to one or more Senior Managers or a committee of Senior Managers the right to grant Awards to Employees who are not officers or directors of the Company and to cancel or suspend Awards to Employees who are not officers or directors of the Company.

(k) The Company shall be authorized to withhold from any Award granted or payment due under the Plan the amount of withholding taxes due in respect of an Award or payment hereunder and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. The Committee shall be authorized to establish procedures for election by Participants to satisfy such withholding taxes by delivery of, or directing the Company to retain, Shares.

(l) Nothing contained in this Plan shall prevent the Board of Directors from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is otherwise required; and such arrangements may be either generally applicable or applicable only in specific cases.

(m) The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law.

(n) If any provision of this Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(o) Awards may be granted to Employees who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.

SECTION 15. EFFECTIVE DATE OF PLAN. The Plan shall be effective on the Effective Date.

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SECTION 16. TERM OF PLAN. No Award shall be granted pursuant to the Plan after 10 years from the Effective Date, but any Award theretofore granted may extend beyond that date.

LUCENT TECHNOLOGIES INC.
DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
Adopted April 3, 1996
and Amended on November 20, 1996

1. Eligibility

Each member of the Board of Directors ("Board") of Lucent Technologies Inc. ("Company") who is not an employee of the Company, or of any of its subsidiaries or of any controlling affiliate and its subsidiaries (including AT&T Corp., a New York Corporation ("AT&T"), and its subsidiaries during the period when they are affiliated with the Company), is eligible to participate in a Deferred Compensation Plan for Non-Employee Directors ("Plan").

Notwithstanding the foregoing, or anything to the contrary contained elsewhere in the Plan, the account under the AT&T Corp. Deferred Compensation Plan for Non-Employee Directors ("Assumed Account") of any Director who, prior to the date of adoption of this plan, was a Non-Employee Director of AT&T, which account is assumed by the Company pursuant to the Employee Benefits Agreement between AT&T and the Company dated as of February 1, 1996 (the "Employee Benefits Agreement") shall continue to accrue dividends on any Company Shares portion as provided in this Plan and to accrue interest on any Cash portion notwithstanding that such Director is ineligible to or does not otherwise participate in this Plan.

2. Participation

(a) Prior to the beginning of any calendar year, or, in the case of newly elected Directors, within 30 days of such election, each eligible Director may elect to participate in the Plan by directing that all or any part of the compensation which would otherwise have been payable currently for services as a Director (including fees payable for services as a member of a committee of the Board) during such calendar year, or, in the case of newly elected Directors, during the remainder of such

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calendar year, shall be credited to a deferred compensation account subject to the terms of the Plan.

(b) Such an election to participate in the Plan shall be in the form of a document executed by the Director and filed with the Secretary of the Company. An election related to fees otherwise payable currently in any calendar year shall become irrevocable on the last day prior to the beginning of such calendar year, or, in the case of new Directors, on the 30th day after becoming a Director. An election shall continue until a

Director ceases to be a Director or until he or she terminates or modifies such election by written notice. Any such termination or modification shall become effective as of the end of the calendar year in which such notice is given with respect to all fees otherwise payable in subsequent calendar years. A Director who has filed a termination of election may thereafter again file an election to participate for any calendar year or years subsequent to the filing of such election.

3. Deferred Compensation Accounts

(a) At the time of election to participate in the Plan under Item 2(a) above, a Director shall also designate the percentage of such deferred amounts to be credited to the Company Shares portion of the Director's deferred account and the percentage to be credited to the Cash portion of such account; provided, however, that any portion of a Stock Retainer payable under the Company's Stock Retainer Plan for Non-Employee Directors, which is deferred pursuant to this Plan, shall be credited only to the Company Shares portion of such Director's account under this Plan.

(b) Deferred Company Shares. Deferred amounts credited to the Company Shares portion of a Director's account on the date the related compensation is or would be otherwise paid shall be converted to a number of deferred Company Shares, determined by dividing the amount of such compensation by the price of a share of the Company's common stock, par value \$0.01 per share (the "Common Stock"), as determined in the last sentence of this paragraph. The Director's account (including any portion of an Assumed Account represented by Company Shares) shall also be credited on each dividend payment date for the Common Stock with a number of Company Shares

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equivalent to the dividend payment on the number of shares of Common Stock equal to the number of deferred Company Shares in the Director's account on the record date for such dividend. Such amount shall then be converted to a number of additional deferred Company Shares determined by dividing such amount by the price of a share of Common Stock, as determined in the last sentence of this paragraph. The price of a share of Common Stock related to any compensation or dividend payment date shall be the average of the closing prices of a share of Common Stock over the five consecutive trading days immediately preceding the date of the valuation. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Common Stock is listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the

high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ") or such other system then in use, or, if on any such date the Common Stock is not quoted by any such organization, the average of the closing bid and asked prices as furnished by the professional market maker making a market in the Common Stock.

In the event of any change in outstanding Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares, spin-off or other similar corporate change, the Board shall make such adjustments, if any, that it deems appropriate in the number of deferred Company Shares then credited to Directors' accounts (including any portion of an Assumed Account represented by Company Shares). Any and all such adjustments shall be conclusive and binding upon all parties concerned.

The maximum number of deferred Company Shares that may be maintained in the Company Shares portion of all Directors' deferred compensation accounts may not exceed two million (including any portion of an

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Assumed Account represented by Company Shares). This number is subject to adjustment to take into consideration adjustment in the number of outstanding shares of Common Stock as described in the preceding paragraph.

(c) Deferred Cash. Deferred amounts credited to the Cash portion of a Director's account (including any portion of an Assumed Account represented by Cash) shall bear interest from the date the related compensation is or would otherwise be paid. The interest credited to the Cash portion of the account will be compounded quarterly at the end of each calendar quarter. For all amounts whenever credited, the rate of interest credited thereon, as of the end of each calendar quarter ending after the date of adoption of this Plan by the Board, shall be equal to the average ten-year U. S. Treasury note rate for the previous calendar quarter plus 5% or such other rate as shall be determined from time to time by the Board. Any change in such interest rate shall take effect only for accruals of interest after it is approved by the Board.

4. Distribution

(a) At the time of election to participate in the Plan, a Director shall also make elections with respect to the distribution (during the Director's lifetime or in the event of the Director's death) of amounts deferred under the Plan plus accumulated earnings. Such elections shall be contained in the document referred to in Item 2(b), executed by the Director and filed with the Secretary of the Company. The election with respect to the distribution during the Director's lifetime, of fees for any calendar year, shall become irrevocable on the last day prior to the beginning of such calendar year. The election related to the distribution in the event of

the Director's death, including the designation of a beneficiary or beneficiaries, may be changed by the Director at any time, by filing the appropriate document with the Secretary of the Company.

(b) A Director may elect to receive amounts credited to his or her account in one payment or in some other number of equal annual installments (not exceeding 20), provided, however, that the number of annual installments may not extend beyond the life expectancy of the Director, determined as of the date the first installment is paid. The election shall direct that the first installment (or the single payment if the Director has so elected) be paid on the first day of the calendar

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year immediately following either (1) the year in which the Director ceases to be a Director of the Company, or (2) the later of the year in which the Director ceases to be a Director of the Company or the year in which the Director attains the age specified in such election, which age shall not be later than age 70-1/2. Each distribution shall be made pro-rata from amounts credited to the Cash portion and to the Company Shares portion of the Director's account on the applicable payment date.

(c) All distributions shall be in cash. For this purpose, the value of deferred Company Shares distributed on any payment date shall be determined by multiplying the number of such deferred Company Shares by the price of a share of Common Stock, as determined pursuant to Item 3(b) with respect to the five trading day period ending ten business days prior to the date of the distribution.

(d) Notwithstanding an election pursuant to Item 4(b), in the event a Director engages in any competitive activity, as determined in accordance with and pursuant to the terms and conditions of the Company's non-competition guideline, the entire balance in the Director's deferred account, including earnings, shall be paid immediately in a single payment.

(e) A Director may elect that, in the event the Director should die before full payment of all amounts credited to the Director's deferred account, the balance of the deferred amounts shall be distributed in one payment or in some other number of approximately equal annual installments (not exceeding 10) to the beneficiary or beneficiaries designated in writing by the Director, or if no designation has been made, to the estate of the Director. The first installment (or the single payment if the Director has so elected) shall be paid on the first day of the calendar year following the year of death.

(f) Installments subsequent to the first installment to the Director, or to a beneficiary or to the Director's estate, shall be paid on the first day of each succeeding calendar year until the entire amount credited to the Director's deferred account shall have been paid. Deferred amounts held pending distribution shall continue to be credited with earnings, determined

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(g) Payments of amounts credited to a Director's account under this Plan shall not be duplicative of payments, if any, received by a Director under the AT&T Corp. Deferred Compensation Plan for Non-Employee Directors, which payments shall be a complete offset to any payments under this Plan. The Board may, as a prerequisite to the commencement of any installments or lump-sum payment to any Director or beneficiary under this Plan, obtain a written acknowledgment, in a form reasonably satisfactory to the Board, that such installments or payment represent a complete satisfaction of any amounts deferred or earnings accrued under the AT&T Plan.

(h) A Director (or former Director) participating in the Plan may at any time elect to receive a distribution of all or any portion of the Cash amount credited to his or her account under the Plan. Amounts credited as deferred Company Shares shall not be available for distribution under this Paragraph (h). Requests for distributions shall be submitted in writing (on a form approved for that purpose) to the Secretary of the Company or his or her delegate. Distributions from the Director's (or former Director's) Cash account under the Plan pursuant to this Paragraph (h) will at all times be subject to (1) reduction for applicable Federal income tax withholdings, and (2) a percentage reduction in the amount requested equal to six percent (6%) of the amount requested. Distributions pursuant to this Paragraph (h) shall be payable in a single lump sum, in cash, within thirty (30) days of submission of the completed distribution form.

5. Miscellaneous

(a) The right of a Director to any deferred fees and/or earnings thereon shall not be subject to assignment by the Director.

(b) Except as provided in Section 5(c), all deferred amounts shall be held in the general funds of the Company. The Company shall not be required to reserve, or otherwise set aside, funds for the payment of its obligations hereunder and Participants shall have no rights thereto except as general creditors of the Company.

(c) (i) The Company shall create a grantor trust or utilize an existing grantor trust (in either

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case, the "Trust") to assist it in accumulating the shares of Common Stock and cash needed to fulfill its obligations under this Plan, to which it shall be obligated to make contributions, no later than the date upon which any "Potential Change of Control" (as defined below) occurs, of a number of shares of Common Stock and an amount of cash such that the assets of the

Trust are sufficient to be discharge all of the Company's obligations under this Plan accrued as of the date of the Potential Change of Control. While a Potential Change of Control is pending and after any "Change of Control" (as defined below), the Company shall be obligated to make additional contributions at least once each fiscal quarter to the extent necessary to ensure that the assets of the Trust remain sufficient to discharge all such obligations accrued as of the last day of such fiscal quarter. If a Potential Change of Control occurs but ceases to be pending without the occurrence of a Change of Control or a subsequent Potential Change of Control then the Company shall be permitted (but not required) to cause the trustee of the Trust to distribute any or all of the assets of the Trust to the Company.

(ii) Directors shall have no beneficial or other interest in the Trust and the assets thereof, and their rights under the Plan shall be as general creditors of the Company, unaffected by the existence of the Trust, except that payments to Directors from the Trust shall, to the extent thereof, be treated as satisfying the Company's obligations under this Plan.

(iii) "Change in Control" shall mean the happening of any of the following events:

(A) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (an "Entity") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any

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employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this Section 2(e), or (5) any acquisition by AT&T Corp. or any of its Affiliates prior to Immediately After the Distribution Date (as that term is defined in the Employee Benefits Agreement between AT&T Corp. and the Company dated as of February 1, 1996 as amended, modified or otherwise supplemented); or

(B) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that for

purposes of this definition, that any individual who becomes a member of the Board subsequent to the Immediately After the Distribution Date, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; and provided, further however, that any such individual whose initial assumption of office occurs as a result of or in connection with either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an Entity other than the Board shall not be so considered as a member of the Incumbent Board; or

(C) The approval by the stockholders of the Company of a merger, reorganization or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a "Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding however, such a Corporate Transaction pursuant to which (A) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such

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Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation or other Person which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries (a "Parent Company")) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Entity (other than the Company, any employee benefit plan (or related trust) of the Company, such corporation resulting from such Corporate Transaction or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, such Parent Company) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to the Corporate Transaction, and (C)

individuals who were members of the Incumbent Board will immediately after the consummation of the Corporate Transaction constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction (or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, of the Parent Company); or

(D) The approval by the stockholders of the Company of a complete liquidation of the Company.

(iv) A "Potential Change of Control" shall mean:

(A) the commencement of a tender or exchange offer by any third person which, if consummated, would result in a Change of Control;

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(B) the execution of an agreement by the Company, the consummation of which would result in the occurrence of a Change of Control;

(C) the public announcement by any person (including the Company) of an intention to take or to consider taking actions which if consummated would constitute a Change of Control other than through a contested election for directors of the Company; or

(D) the adoption by the Board, as a result of other circumstances, including, without limitation, circumstances similar or related to the foregoing, of a resolution to the effect that, for purposes of this definition, a Potential Change of Control has occurred.

A Potential Change of Control shall be deemed to be pending until the earliest of (i) the second anniversary thereof, (ii) the occurrence of a Change of Control, and (iii) the occurrence of a subsequent Potential Change of Control.

(d) Copies of the Plan and any and all amendments thereto shall be made available at all reasonable times at the office of the Secretary of the Company to all Directors.

(e) This Plan may be amended or terminated by the Board at any time on six months notice to all Participants; provided, however, the Board may at any time amend this Plan to provide that any transaction hereunder must be made pursuant to an irrevocable election made by the Participant at least six (6) months in advance of the transaction.

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

Lucent Technologies Inc.
and
Such of its Subsidiary Companies which are
Participating Companies

Effective October 1, 1996

LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

1.

INTRODUCTION AND PURPOSE

The Lucent Technologies Inc. Excess Benefit and Compensation Plan (the "Plan") is intended to constitute an unfunded "excess benefit plan" as defined in ERISA Section 3(36) to the extent it provides benefits that would be paid under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan but for the limitations imposed by Code Section 415, and an "unfunded plan of deferred compensation for a select group of management or highly compensated employees" for purposes of Title I of ERISA, to the extent it provides other benefits.

The Plan is a successor to the AT&T Excess Benefit and Compensation Plan in effect as of September 30, 1996 with respect to "Transferred Individuals" (as defined in Article 2). The Plan assumes and is solely responsible for all liabilities as of September 30, 1996 relating to Transferred Individuals. Effective as of the date an individual becomes a "Transition Individual" (as defined in Section 1.38(b) or (c) of the Management Interchange Agreement or Section 1.30(b) or (c) of the Occupational Interchange Agreement), the Plan shall also assume and be solely responsible for all liabilities relating to such Transition Individuals. Accordingly, the Plan shall recognize such service and compensation as of September 30, 1996 with respect to Transferred Individuals as would be recognized by the AT&T Excess Benefit and Compensation Plan in effect as of September 30, 1996. To the extent that the Plan refers to dates, events, agreements, elections, or designations before October 1, 1996 relating to Transferred Individuals, such dates, events, agreements, elections, and designations shall be recognized as if Lucent Technologies Inc. and the Plan were in existence at the applicable time. For Transferred Individuals who terminated employment before October 1, 1996, the provisions of the AT&T Excess Benefit and Compensation Plan in effect at termination of the Transferred Individual's employment shall be deemed to be incorporated in this Plan and shall govern.

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

2.

DEFINITIONS

Unless the context clearly indicates otherwise, the following terms have the meanings described below when used in this Plan and references to a particular Article or Section shall mean the Article or Section so delineated in this Plan, or such other portion or entity designated by the Company.

2.1. ADMINISTRATOR

With respect to individuals covered by the Lucent Technologies Inc. Management Pension Plan, the Pension Plan Administrator under the Lucent Technologies Inc. Management Pension Plan and, with respect to individuals covered by the Lucent Technologies Inc. Pension Plan, the Pension Plan Administrator under the Lucent Technologies Inc. Pension Plan, or such other person or entity designated by the Company.

2.2. AFFILIATED CORPORATION

Any corporation of which more than 50 percent of the voting stock is owned directly or indirectly by the Company.

2.3. BENEFICIARY

Any person entitled to an Excess Death Benefit pursuant to Section 4.9.

2.4. BENEFIT LIMITATION

The maximum benefit payable to a Participant under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan in accordance with Code Section 415, but after application of the Compensation Limitation, if any, under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan.

2.5. BOARD

The Board of Directors of the Company.

2.6. CODE

The Internal Revenue Code of 1986, as amended from time to time. Any reference to a particular section of ERISA includes any applicable regulations promulgated under that section.

2.7. COMMITTEE

The Lucent Technologies Inc. Employee Benefits Committee.

2.8. COMPANY

Lucent Technologies Inc., a Delaware Corporation, or its successor.

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DEFINITIONS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

2.9. COMPENSATION LIMITATION

The maximum amount of annual compensation under Code Section 401(a)(17) that may be taken into account in any Plan Year for benefit accrual purposes under the Lucent Technologies Inc. Management Pension Plan or for purposes of calculating an Accident Death Benefit, Sickness Death Benefit or Pensioner Death Benefit under the Lucent Technologies Inc. Management Pension Plan.

2.10. ERISA

The Employee Retirement Income Security Act of 1974, as amended from time to time. Any reference to a particular section of ERISA includes any applicable regulations promulgated under that section.

2.11. EXCESS RETIREMENT BENEFIT

The benefit, if any, described in Article 4 which is payable to a Participant or a Surviving Spouse under the terms of the Plan.

2.12. EXECUTIVE

An individual who is considered to be within "a select group of management or highly compensated employees" for purposes of Title I of ERISA and whose annual compensation in any year exceeds the Compensation Limitation.

2.13. PARTICIPANT

An individual and/or an Executive who has satisfied the eligibility requirements in Section 3.1 for accrual of an Excess Retirement Benefit.

2.14. PARTICIPATING COMPANY

The Company and any of its subsidiaries, which is a Participating Company under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan.

2.15. PLAN

This Lucent Technologies Inc. Excess Benefit and Compensation Plan.

2.16. SUBSIDIARY

Any corporation of which more than 80% of the voting stock is owned directly or indirectly by the Company.

2.17. SURVIVING SPOUSE

A deceased Participant's surviving spouse who is eligible to receive a survivor annuity benefit under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan.

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

2.18. TERM OF EMPLOYMENT

"Term of Employment" within the meaning of the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, as applicable, for purposes of calculating a Participant's benefit.

2.19. TRANSFERRED INDIVIDUAL

A "Transferred Individual" within the meaning of the Employee Benefits Agreement between AT&T and the Company dated as of February 1, 1996, as amended.

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE
3.
ELIGIBILITY

3.1. PARTICIPATION

(i) Each individual who becomes eligible or is eligible for a deferred vested pension, a disability pension or a service pension, under the terms and conditions of either the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, shall be eligible to participate in this Plan, and/or (ii) each Executive who, in any year, has annual compensation in excess of the Compensation Limitation and who becomes or is eligible for a deferred vested pension, a disability pension or a service pension, under the terms and conditions of the Lucent Technologies Inc. Management Pension Plan, shall be eligible to participate in this Plan.

3.2. SURVIVING SPOUSE BENEFIT

Each Surviving Spouse of a Participant shall be eligible to receive an Excess Retirement Benefit under the Plan, if eligible as provided in Section 4.1.

3.3. RELATIONSHIP TO OTHER PLANS

The Excess Retirement Benefit and Excess Death Benefit payable under the Plan shall be in addition to any other benefits provided, directly or indirectly, to a Participant, Surviving Spouse or Beneficiary by any Participating Company. Participation in the Plan shall not preclude or limit the participation of the Participant in any other benefit plan sponsored by a Participating Company for which such Participant would otherwise be eligible. The Excess Retirement Benefit and Excess Death Benefit payable to a Participant, Surviving Spouse or Beneficiary under this Plan shall not duplicate benefits payable to such Participant, Surviving Spouse or Beneficiary under any other plan or arrangement of a Participating Company or any Affiliated Corporation.

3.4. FORFEITURE OF BENEFITS

If any Participant who otherwise would be entitled to an Excess Retirement Benefit under this Plan is discharged for cause due to conviction of a felony related to his or her employment, the rights of such Participant to an Excess Retirement Benefit under this Plan, including the rights of the Participant's spouse to an Excess Retirement Benefit as a Surviving Spouse and/or the rights of a Beneficiary to an Excess Death Benefit, shall be forfeited.

LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

4.

RETIREMENT AND DEATH BENEFITS

4.1. EXCESS RETIREMENT BENEFITS

If the benefit payable to a Participant or a Surviving Spouse under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan is limited by reason of the application of the Benefit Limitation and/or, for an Executive or a Surviving Spouse of an Executive, the Compensation

Limitation, an Excess Retirement Benefit shall be paid as provided in this Article 4 to the Participant or the Surviving Spouse.

4.2. AMOUNT OF EXCESS RETIREMENT BENEFIT

(a) The amount, if any, of the Excess Retirement Benefit payable monthly to a Participant or a Surviving Spouse shall be equal to the difference between (i) and (ii) where:

(i) is the amount of the monthly pension benefit which would be provided to the Participant or Surviving Spouse under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, without regard to the Benefit Limitation and/or for an Executive, or a Surviving Spouse of an Executive, without regard to the Compensation Limitation under the Lucent Technologies Inc. Management Pension Plan, based upon the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan formula, as applicable, in effect as of the date of termination of employment or death; and

(ii) is the amount of the monthly pension benefit actually payable to such Participant or Surviving Spouse under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan.

(b) The amount of the Excess Retirement Benefit payable as a result of the application of the Benefit Limitation under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan shall be determined or redetermined, based upon the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan formula, as applicable, in effect as of the date of termination of employment or termination of reemployment pursuant to Section 4.7 or death, (i) as of the date when benefits are to commence pursuant to Section 4.3 or recommence pursuant to Section 4.7; (ii) as of the effective date of any subsequent increases and/or decreases in the Benefit Limitation, and/or (iii) as of the effective date of any special increases in the monthly benefit payable, prior to application of the Benefit Limitation, as a result of amendments to the Lucent Technologies Inc. Management Pension Plan and/or the Lucent Technologies Inc. Pension Plan, whichever is applicable. Further, the amount of the Excess Retirement Benefit shall be reduced for commencement of the Excess Retirement Benefit prior to age 55 and/or for the cost of the survivor annuity, if any, in the same manner as is set forth in the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, as applicable.

LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

4.3. COMMENCEMENT AND FORM OF BENEFITS PAYABLE TO PARTICIPANT OR SURVIVING SPOUSE

The Excess Retirement Benefit provided under this Plan payable to either the Participant or the Surviving Spouse (i) shall commence at the same time, (ii) shall be paid for as long as (subject to Section 4.2) and (iii) shall be paid in the same benefit form as the Participant's or Surviving Spouse's benefits are paid under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan; whichever is applicable, provided,

however, that the Committee shall have the right to approve the Participant's election of the form of the Excess Retirement Benefit payable to the Participant.

4.4. NO SURVIVING SPOUSE

If a Participant dies before the date as of which his or her benefit commences under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, and he or she does not have a Surviving Spouse on his or her date of death, no Excess Retirement Benefit shall be paid after the death of the Participant with respect to the Participant.

4.5. FUTURE BENEFIT ADJUSTMENTS

(a) If a Participant has commenced receiving a service or disability pension under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan in the form of a joint and 50 percent survivor annuity and his or her designated annuitant subsequently predeceases him or her, the Participant's Excess Retirement Benefit under this Plan shall be calculated in accordance with Section 4.2 and thereafter paid, prospectively, by restoring the original cost of the joint and 50 percent survivor annuity form of benefit under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, whichever is applicable. Such adjustment shall be effective as of the first day of the first month following the death of the Participant's surviving annuitant.

(b) In the event that, following commencement of benefits to a Participant under the Plan, the Lucent Technologies Inc. Management Pension Plan benefit is subsequently adjusted to include any payments considered Compensation under the Lucent Technologies Inc. Management Pension Plan paid after commencement of the Lucent Technologies Inc. Management Pension Plan benefit, the Excess Retirement Benefit to the Participant under this Plan shall be recalculated as soon as practicable after the Lucent Technologies Inc. Management Pension Plan benefit is adjusted and shall be paid retroactively to the date the Lucent Technologies Inc. Management Pension Plan benefit commences, if the Lucent Technologies Inc. Management Pension Plan benefit is adjusted retroactively to such date.

(c) In the event that, following commencement of benefits to a Participant or Surviving Spouse under the Plan, the Lucent Technologies Inc. Management Pension Plan or Lucent Technologies Inc. Pension Plan benefit is subsequently increased as a result of a successful claim for benefits under the Lucent Technologies Inc. Management Pension Plan or Lucent Technologies Inc. Pension Plan, the Excess Retirement Benefit to the Participant or Surviving Spouse under this Plan shall be recalculated as soon as practicable after the Lucent

Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan benefit is adjusted.

4.6. DETERMINATION OF BENEFITS

Excess Retirement Benefit payments and Excess Death Benefit payments

under this Plan shall be calculated in accordance with the rules, procedures, and assumptions utilized under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, whichever is applicable. Thus, whenever it is necessary to determine whether one benefit is less than, equal to, or larger than another, or to determine the equivalent actuarial value of any benefit, whether or not such form of benefit is provided under this Plan, such determination shall be made, at the Administrator's discretion, by the Company's enrolled actuary, using mortality, interest and other assumptions normally used at the time in determining actuarial equivalence under the Lucent Technologies Inc. Management Pension Plan or Lucent Technologies Inc. Pension Plan, whichever is applicable.

4.7. SUSPENSION AND RECOMMENCEMENT OF BENEFIT PAYMENTS

A Participant's employment or reemployment subsequent to retirement or termination of employment with entitlement to an Excess Retirement Benefit under this Plan shall result in the permanent suspension of payment of the Excess Retirement Benefit to the Participant for the period of such employment or reemployment to the extent and in a manner consistent with the terms and conditions applicable to the suspension of benefit payments under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, whichever is applicable. A Participant's Excess Retirement Benefit shall recommence simultaneously with the recommencement of his or her benefits under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan. The amount of the Participant's Excess Retirement Benefit upon recommencement shall be adjusted to reflect adjustments, if any, in the amount of the Participant's pension benefit under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan resulting from the period of reemployment, pursuant to Section 4.2. Following recommencement of payment under this Plan, the Participant (or Surviving Spouse) shall not be eligible to receive any Excess Retirement Benefit payments that would otherwise have been payable but for the suspension.

4.8. MANDATORY PORTABILITY AGREEMENT

A Participant (i) who is employed by an "Interchange Company", as that term is defined under the Mandatory Portability Agreement ("MPA"), subsequent to retirement or termination of employment from the Company, its subsidiaries or any Affiliated Corporation, (ii) who is covered under the terms and conditions of the MPA, and (iii) for whom assets and liabilities are transferred from the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan, shall forfeit his rights to an Excess Retirement Benefit under this Plan, including the rights of the Participant's spouse to an Excess Retirement Benefit as a Surviving Spouse and the rights of Beneficiary to an Excess Death Benefit.

ARTICLE 4

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RETIREMENT AND DEATH BENEFITS

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LUCENT TECHNOLOGIES INC. EXCESS BENEFIT AND COMPENSATION PLAN

4.9. EXCESS DEATH BENEFIT

(a) If the actual Accident Death Benefit, Sickness Death Benefit or Pensioner Death Benefit ("Death Benefit") payable to any person as a result of the death of a Participant under the terms of the Lucent Technologies Inc. Management Pension Plan is reduced or limited by reason of the Compensation Limitation, an Excess Death Benefit shall be paid as provided in this Section

4.9 to the beneficiary otherwise entitled to receive the Death Benefit under the terms and conditions of the Lucent Technologies Inc. Management Pension Plan.

(b) The amount, if any, of the Excess Death Benefit payable shall be equal to the difference between (i) and (ii) where:

(i) is the amount of the Death Benefit which would be provided to the beneficiary under the Lucent Technologies Inc. Management Pension Plan without regard to the Compensation Limitation under the Lucent Technologies Inc. Management Pension Plan in effect as of the date of death; and

(ii) is the amount of the Death Benefit actually payable to such beneficiary under the Lucent Technologies Inc. Management Pension Plan.

(c) The Excess Death Benefit provided under this Plan (i) shall commence at the same time, (ii) shall be paid for as long as, and (iii) shall be paid in the same benefit form as the Committee or its delegate has determined with respect to the Death Benefit payable under the Lucent Technologies Inc. Management Pension Plan.

ARTICLE 4

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RETIREMENT AND DEATH BENEFITS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

5.

DISPOSITION OF PARTICIPATING COMPANY

5.1. SALE, SPIN-OFF, OR OTHER DISPOSITION OF PARTICIPATING COMPANY

(a) Subject to Sections 4.8 and 9.1, in the event the Company sells, spins off, or otherwise disposes of a Subsidiary or an Affiliated Corporation, or disposes of all or substantially all of the assets of a Subsidiary or an Affiliated Corporation such that one or more Participants terminate employment for the purpose of accepting employment with the purchaser of such stock or assets, any person employed by such Subsidiary or Affiliated Corporation who ceases to be an employee as a result of the sale, spin-off, or disposition shall be deemed to have terminated his or her employment with a Participating Company and be eligible for an Excess Retirement Benefit commencing at the same time as his or her benefit, if any, commences under the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan. Further, if the Participant dies after termination of employment as described in this Section 5.1, his or her Surviving Spouse may be entitled to an Excess Retirement Benefit, if eligible as provided in Section 4.1, and/or his or her Beneficiary may be entitled to an Excess Death Benefit, if eligible as provided in Section 4.9.

(b) Notwithstanding the foregoing provisions of this Section 5.1, and subject to Section 9.1, if, as part of the sale, spin-off, or other disposition of the stock or assets of a Subsidiary or Affiliated Corporation, the Subsidiary or Affiliated Corporation, its successor owner, or any other party agrees in writing to assume the liability for the payment of the Excess Retirement Benefit and/or the Excess Death Benefit to which the Participant, Surviving Spouse and/or Beneficiary would have been entitled under the Plan but for such sale,

spin-off, or other disposition, then the entitlement of the Participant or his or her Surviving Spouse to an Excess Retirement Benefit and/or any Beneficiary to an Excess Death Benefit under this Plan shall terminate. Any subsequent entitlement of the former Participant or his or her Surviving Spouse or Beneficiary to the Excess Retirement Benefit and/or the Excess Death Benefit shall be the sole responsibility of the assuming party. Upon the assumption of the liability for the payment of an Excess Retirement Benefit and Excess Death Benefit by AT&T Corp. pursuant to Section 7.1 of the Management Interchange Agreement or Section 3.1 of the Occupational Interchange Agreement, both dated as of April 8, 1996, between Lucent Technologies Inc. and AT&T Corp., the entitlement of a Transition Individual (as defined in Section 1.38(a) or (d) of the Management Interchange Agreement or Section 1.30(a) or (d) of the Occupational Interchange Agreement), and/or his or her Surviving Spouse or Beneficiary, to an Excess Retirement Benefit and/or an Excess Death Benefit under this Plan shall terminate.

ARTICLE 5

-10- DISPOSITION OF PARTICIPATING COMPANY

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

6.

SOURCE OF PAYMENT

6.1. SOURCE OF PAYMENTS

Benefits arising under this Plan and all costs, charges, and expenses relating thereto will be payable from the Company's general assets. The Company may, however, establish a trust to pay such benefits and related expenses, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges, and expenses relating thereto. To the extent that the funds held in the trust, if any, are insufficient to pay such benefits, costs, charges and expenses, the Company shall pay such benefits, costs, charges, and expenses from its general assets.

6.2. UNFUNDED STATUS

The Plan at all times shall be entirely unfunded for purposes of the Code and ERISA and no provision shall at any time be made with respect to segregating any assets of a Participating Company for payment of any benefits hereunder. Funds that may be invested through a trust described in Section 6.1 shall continue for all purposes to be part of the general assets of the Participating Company which invested the funds. The Plan constitutes a mere promise by the Company and the Participating Companies to make Excess Retirement Benefit payments and Excess Death Benefit payments, if any, in the future. No Participant, Surviving Spouse or any other person shall have any interest in any particular assets of a Participating Company by reason of the right to receive a benefit under the Plan and to the extent the Participant, Surviving Spouse or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of a Participating Company.

6.3. FIDUCIARY RELATIONSHIP

Nothing contained in the Plan, and no action taken pursuant to the provisions of the Plan, shall create or be construed to create a trust or a

fiduciary relationship between or among the Company, any other Participating Company, the Board, the Administrator, the Committee, any Participant, any Surviving Spouse, or any other person, except as provided in Section 7.4.

ARTICLE 6

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SOURCE OF PAYMENT

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

7.

ADMINISTRATION OF THE PLAN

7.1. ADMINISTRATION

The Company shall be the "plan administrator" of the Plan as that term is defined in ERISA.

7.2. INDEMNIFICATION

Neither the Administrator, any member of the Board or of the Committee, nor each other officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, shall be personally liable by reason of any contract or other instrument executed by such individual or on his or her behalf in his or her capacity as the Administrator or as a member of the Board or of the Committee, nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless the Administrator, each member of the Board, each member of the Committee, and each other employee or officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

7.3. CLAIMS PROCEDURE

(a) All claims for benefit payments under the Plan shall be submitted in writing by the Participant, Surviving Spouse, Beneficiaries, or any individual duly authorized by them (Claimant for purposes of Section 7.3), to the Administrator. The Administrator shall notify the Claimant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days in unusual cases provided that written notice of the extension is furnished to the Claimant prior to the commencement of the extension. In the event the claim is denied, such notice shall (i) set forth the specific reasons for denial, (ii) make reference to the pertinent Plan provisions on which the denial is based, (iii) describe any additional material or information necessary before the Claimant's request may be acted upon, and (iv) explain the procedure for appealing the adverse determination.

(b) Any Claimant whose claim for benefits has been denied, in whole or in part, may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the Claimant is relying, and (iii) include copies of any other documents or materials which may support favorable consideration of the claim. The

Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in unusual cases provided that written notice of the extension is furnished to the Claimant prior to the commencement of the extension. The decision of the Committee shall be set forth in writing, include specific reasons for the decision, refer to pertinent Plan

ARTICLE 7

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ADMINISTRATION OF THE PLAN

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

provisions on which the decision is based, and shall be final and binding on all persons affected thereby.

Any Claimant whose claim for benefits has been denied shall have such further rights of review as are provided in ERISA Section 503, and the Committee and Administrator shall retain such right, authority, and discretion as is provided in or not expressly limited by ERISA Section 503.

(c) The Committee shall serve as the final review committee, under the Plan and ERISA, for the review of all appeals by Claimants whose initial claims for benefits have been denied, in whole or in part, by the Administrator. The Committee shall have the authority to determine conclusively for all parties any and all questions arising from administration of the Plan, and shall have sole and complete discretionary authority and control to manage the operation and administration of the Plan, including, but not limited to, authorizing disbursements according to the Plan, the determination of all questions relating to eligibility for participation and benefits, interpretation of all Plan provisions, determination of the amount and kind of benefits payable to any Participant, Surviving Spouse or Beneficiary, and the construction of disputed and doubtful terms. Such decisions by the Committee shall be conclusive and binding on all parties and not subject to further review.

7.4. NAMED FIDUCIARIES

The Company, the Committee, the Pension Plan Administrator(s) and each Participating Company is each a named fiduciary as that term is used in ERISA with respect to the particular duties and responsibilities herein provided to be allocated to each of them.

7.5. ROLE OF THE COMMITTEE

(a) The Committee shall have the specific powers elsewhere herein granted to it and shall have such other powers as may be necessary in order to enable it to administer the Plan, except for powers herein granted or provided to be granted to others.

(b) The procedures for the adoption of by-laws and rules of procedure and for the employment of a secretary and assistants shall be the same as are set forth in the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan.

7.6. ALLOCATION OF RESPONSIBILITIES

The Company may allocate responsibilities for the operation and administration of the Plan consistent with the Plan's terms, including allocation of responsibilities to the Committee and the other Participating

Companies. The Company and other named fiduciaries may designate in writing other persons to carry out their respective responsibilities under the Plan, and may employ persons to advise them with regard to any such responsibilities.

7.7. MULTIPLE CAPACITIES

Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

ARTICLE 7

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ADMINISTRATION OF THE PLAN

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

8.

AMENDMENT AND TERMINATION

8.1. AMENDMENT AND TERMINATION

Pursuant to ERISA Section 402(b)(3), the Board or its delegate (acting pursuant to the Board's delegationS of authority then in effect) may from time to time amend, suspend, or terminate the Plan at any time. Plan amendments may include, but are not limited to, elimination or reduction in the level or type of benefits provided prospectively to any class or classes of Participants (and Surviving Spouses and Beneficiaries). Any and all Plan amendments may be made without the consent of any Participant, Surviving Spouse or Beneficiary. Notwithstanding the foregoing, no such amendment, suspension, or termination shall retroactively impair or otherwise adversely affect the rights of any Participant, Surviving Spouse, or other person to benefits under the Plan, the Lucent Technologies Inc. Management Pension Plan or the Lucent Technologies Inc. Pension Plan which have arisen prior to the date of such action.

ARTICLE 8

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AMENDMENT AND TERMINATION

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

ARTICLE

9.

GENERAL PROVISIONS

9.1. BINDING EFFECT

The Plan shall be binding upon and inure to the benefit of each Participating Company and its successors and assigns, and to each Participant, his or her successors, designees, Beneficiaries, designated annuitants, and estate. The Plan shall also be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company. Nothing in the Plan shall preclude the Company from merging or consolidating into or with, or transferring all or substantially all of its assets to, another corporation which assumes the Plan and all obligations of the Company hereunder. The Company agrees that it will make appropriate provision for the preservation of the rights of Participants, Surviving Spouses and Beneficiaries under the Plan in any agreement or plan or reorganization into

which it may enter to effect any merger, consolidation, reorganization, or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets, the term "Participating Company" shall refer to such other corporation and the Plan shall continue in full force and effect.

9.2. NO GUARANTEE OF EMPLOYMENT

Neither the Plan nor any action taken hereunder shall be construed as (i) a contract of employment or deemed to give any Participant the right to be retained in the employment of a Participating Company, the right to any level of compensation, or the right to future participation in the Plan; or (ii) affecting the right of a Participating Company to discharge or dismiss any Participant at any time.

9.3. TAX WITHHOLDING

The Company or a Participating Company, as applicable, shall withhold all federal, state, local, or other taxes required by law to be withheld from Excess Retirement Benefit payments under the Plan. The Company shall also withhold all FICA taxes required by law to be withheld on an Executive's Excess Retirement Benefits under the Plan.

9.4. ASSIGNMENT OF BENEFITS

No Excess Retirement Benefit or Excess Death Benefit under this Plan or any right or interest in such Excess Retirement Benefit or Excess Death Benefit shall be assignable or subject in any manner to anticipation, alienation, sale, transfer, claims of creditors, garnishment, pledge, execution, attachment or encumbrance of any kind, including, but not limited to, pursuant to any domestic relations order (within the meaning of ERISA Section 206(d)(3) and Code Section 414(p)(1)(B)) or judgment or claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings, and any such attempted disposition shall be null and void.

9.5. FACILITY OF PAYMENT

If the Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Administrator so directs the Company, be paid to the same person or institution that the benefit with respect to such person is paid or to be paid under the Lucent Technologies Inc. Management Pension Plan or Lucent Technologies Inc. Pension Plan, if applicable, or the Participant's lawful spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Administrator to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be in complete discharge of the liability of the Company, the Board, the Committee, the Administrator, and the Participating Company therefor. If any payment to which a Participant, Surviving Spouse or Beneficiary is entitled under this Plan is unclaimed or otherwise not subject to payment to the person or persons so entitled, such amounts representing such payment or payments shall be forfeited after a period of two years from the date the first

such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

9.6. SEVERABILITY

If any section, clause, phrase, provision, or portion of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of this Plan and shall not affect the application of any section, clause, provision, or portion hereof to other persons or circumstances.

9.7. PLAN YEAR

For purposes of administering the Plan, each plan year shall begin on January 1 and end on December 31, provided, however, that the first Plan Year shall begin on October 1 and end on December 31.

9.8. HEADINGS

The captions preceding the sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provisions of the Plan.

9.9. GOVERNING LAW

The Plan shall be governed by the laws of the State of New Jersey (other than its conflict of laws provisions) from time to time in effect, except to the extent such laws are preempted by the laws of the United States of America.

ARTICLE 9 -16- GENERAL PROVISIONS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

9.10. ENTIRE PLAN

This written Plan document is the final and exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in Article 7. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to Section 8.1.

ARTICLE 9 -17- GENERAL PROVISIONS

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LUCENT TECHNOLOGIES INC.
EXCESS BENEFIT AND COMPENSATION PLAN

IN WITNESS WHEREOF, the Company has caused this Plan to be effective on October 1, 1996 and to be executed on this ___ day of _____, 1996.

By: _____
Curtis R. Artis
Senior Vice President, Human Resources

Attest: _____
Pamela F. Craven
Vice President - Law
Assistant Secretary

ARTICLE 9

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GENERAL PROVISIONS

LUCENT TECHNOLOGIES INC.
MID-CAREER PENSION PLAN

Lucent Technologies Inc.
and
Such of its Subsidiary Companies which are
Participating Companies

Effective October 1, 1996

LUCENT TECHNOLOGIES INC.
MID-CAREER PENSION PLAN

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LUCENT TECHNOLOGIES INC.
MID-CAREER PENSION PLAN

ADOPTED effective October 1, 1996

ARTICLE

1.

INTRODUCTION AND PURPOSE

The purpose of the Lucent Technologies Inc. Mid-Career Pension Plan (the "Plan") is to provide certain unfunded single life pension payments, as set forth more fully herein, to eligible employees of the Company and such other subsidiaries of the Company that become Participating Companies. The Plan is intended to constitute an unfunded pension plan for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

The Plan is a successor to the AT&T Mid-Career Pension Plan in effect as of September 30, 1996 with respect to Transferred Individuals (as defined in Article 2). The Plan assumes and is solely responsible for all liabilities as of September 30, 1996 relating to Transferred Individuals. Accordingly, the Plan shall recognize such service and compensation as of September 30, 1996 with respect to Transferred Individuals as would be recognized by the AT&T Mid-Career Pension Plan in effect as of September 30, 1996. Effective as of the date an individual becomes a "Transition Individual" (as defined in Section 1.38(b) or (c) of the Management Interchange Agreement or Section 1.30(b) or (c) of the Occupational Interchange Agreement), the Plan shall also assume and be solely responsible for all liabilities relating to such Transition Individuals. To the

extent that the Plan refers to dates, events, agreements, elections, or designations before October 1, 1996 relating to Transferred Individuals, such dates, events, agreements, elections, and designations shall be recognized as if Lucent Technologies Inc. and the Plan were in existence at the applicable time. For Transferred Individuals who terminated employment before October 1, 1996, the provisions of the AT&T Mid-Career Pension Plan in effect at termination of the Transferred Individual's employment shall be deemed to be incorporated in this Plan and shall govern.

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE
2.
DEFINITIONS

Unless the context clearly indicates otherwise, the following terms have the meanings described below when used in this Plan and references to a particular Article or Section shall mean the Article or Section so delineated in this Plan.

2.1. ADEA

The Age Discrimination in Employment Act of 1967, and as it may be amended from time to time.

2.2. AFFILIATED CORPORATION

Any corporation of which more than 50 percent of the voting stock is owned directly or indirectly by AT&T.

2.3. AT&T

AT&T Corp., a New York Corporation, or its successors.

2.4. ADMINISTRATOR

The "Pension Plan Administrator" under the Pension Plan, or such other person or entity designated by the Company.

2.5. BOARD

The Board of Directors of the Company.

2.6. CODE

The Internal Revenue Code of 1986, as amended from time to time. Any reference to a particular section of the Code includes any applicable regulations promulgated under that section.

2.7. COMMITTEE

The Employee Benefits Committee appointed by the Company to administer the Pension Plan.

2.8. COMPANY

Lucent Technologies Inc., a Delaware corporation, or its successors.

2.9. COMPENSATION

"Compensation" within the meaning of the Pension Plan.

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

2.10. D-BAND

"D-band," formerly D-Level, Fourth level and SG-10 and SG-11, shall mean the level directly above C-band, or any equivalent salary grade or level as determined by the Company.

2.11. EXECUTIVE

"Executive," formerly E-Level, E-band, Fifth level and SG-12 through SG-14, shall mean the level directly above D-band, or any equivalent salary grade or level as determined by the Company.

2.12. ERISA

The Employee Retirement Income Security Act of 1974, as amended from time to time. Any reference to a particular section of ERISA includes any applicable regulations promulgated under that section.

2.13. INTERCHANGE AGREEMENT

An "Interchange Agreement" within the meaning of the Pension Plan.

2.14. INTERCHANGE COMPANY

An "Interchange Company" within the meaning of the Pension Plan.

2.15. LUCENT

The Company, its subsidiaries and any successors to such entity.

2.16. LUCENT CONTROLLED GROUP

The "Lucent Controlled Group" within the meaning of the Pension Plan.

2.17. MANDATORY RETIREMENT AGE

Age 65 for those employees referred to in ADEA Section 12(c)(1) of ADEA or at such later time as may first be permissible under such section. For those employees for whom age is a bona fide occupational qualification within the meaning of ADEA Section 4(f)(1), the Mandatory Retirement Age shall be as may be applicable under the ADEA.

2.18. MID-CAREER PENSION CREDITS

(a) For those employees hired or rehired at Executive level or above, and all of whose Term of Employment is at Executive level or above, Mid-Career Pension Credits is the difference between 35 years and the Term of Employment that could accrue if the employee worked to the later of Normal Retirement Age, retirement or termination of employment, provided that the Mid-Career Pension Credits shall not exceed the actual Term of Employment and shall not include any part-time service if the employee was hired by Lucent on or after November 18, 1981.

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

(b) For those employees hired or rehired at D-band or above, and whose Term of Employment includes service at D-band or below, Mid-Career Pension Credits is computed by multiplying the employee's Mid-Career Pension Credits as defined in Section 2.18(a), by a fraction, the numerator of which shall be the number of years and months of service completed with a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) at Executive level and above, and the denominator of which shall be the actual Term of Employment at termination of employment, provided, however, that for any Transferred Individual on the active roll of AT&T as of August 29, 1991, his or her benefit under this Plan shall equal the greater of the benefit calculated under the definition of Mid-Career Pension Credits in this Section 2.18(b) as of the Transferred Individual's retirement or termination of employment or the benefit accrued under the Predecessor Plan as of August 29, 1991.

2.19. NORMAL RETIREMENT AGE

"Normal Retirement Age" within the meaning of the Pension Plan.

2.20. PARTICIPATING COMPANY

The Company or any subsidiary of the Company which is a Participating Company under the Pension Plan.

2.21. PENSION PLAN

The Lucent Technologies Inc. Management Pension Plan.

2.22. PLAN

This Lucent Technologies Inc. Mid-Career Pension Plan.

2.23. PREDECESSOR PLAN

The AT&T Mid-Career Pension Plan for that portion of the plan which provided benefit coverage to certain Lucent employees prior to October 1, 1996.

2.24. PLAN YEAR

The Plan Year for the Plan shall be January 1 through December 31, provided, however, that the first Plan Year shall begin on October 1 and end on December 31.

2.25. SUBSIDIARY

Any corporation of which more than 80% of the voting stock is owned directly or indirectly by AT&T.

2.26. TERM OF EMPLOYMENT

"Term of Employment" within the meaning of the Pension Plan for purposes calculating the amount of an employee's benefit, except that "Term of Employment" shall not include any period of part-time employment completed after November 18, 1981, in the case of an employee

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

hired or rehired by a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) on or after November 18, 1981.

2.27. TRANSFERRED INDIVIDUAL

A "Transferred Individual" within the meaning of the Employee Benefits Agreement between AT&T and the Company dated as of February 1, 1996, as amended.

ARTICLE 2

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DEFINITIONS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE
3.
ADMINISTRATION

3.1 ADMINISTRATION

The Company shall be the "plan administrator" and the "sponsor" of the Plan as those terms are defined in ERISA.

3.2. ROLE OF THE COMMITTEE

(a) The Committee shall have the specific powers elsewhere herein granted to it and shall have such other powers as may be necessary in order to enable it to administer the Plan, except for powers herein granted or provided to be granted to others.

(b) The procedures for the adoption of by-laws and rules of procedure and for the employment of a secretary and assistants shall be the same as are set forth in the Pension Plan.

3.3. CLAIMS PROCEDURE

(a) BENEFIT CLAIMS

All claims for benefit payments under the Plan shall be submitted in writing by the Participant or any individual duly authorized by him ("Claimant" for purposes of Section 3.3) to the Administrator. The Administrator shall notify the Claimant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days in unusual cases provided that written notice of the extension is furnished to the Claimant prior to the commencement of the extension. In the event the claim is denied, such notice shall (i) set forth the specific reasons for denial, (ii) make reference to the pertinent Plan provisions on which the denial is based, (iii) describe any additional material or information necessary before the Claimant's request may be acted upon, and (iv) explain the procedure for appealing the adverse determination.

(b) BENEFIT APPEALS

A Claimant whose claim for benefits has been denied, in whole or in part, may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the Claimant is relying, and (iii) include copies of any other documents or materials which may support favorable consideration of the claim. The Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in unusual cases provided that written notice of the extension is furnished to the

Claimant prior to the commencement of the extension. The decision of the Committee shall be set forth in writing, include specific reasons for the decision, refer to pertinent Plan provisions on which the decision is based, and shall be final and binding on all persons affected thereby.

LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

Any Claimant whose claim for benefits has been denied shall have such further rights of review as are provided in ERISA Section 503, and the Committee and Administrator shall retain such right, authority, and discretion as is provided in or not expressly limited by ERISA Section 503.

(c) FINAL REVIEW

The Committee shall serve as the final review committee, under the Plan and ERISA, for the review of all appeals by Claimants, whose initial claims for benefits have been denied, in whole or in part, by the Administrator. The Committee shall have the authority to determine conclusively for all parties any and all questions arising from administration of the Plan, and shall have sole and complete discretionary authority and control to manage the operation and administration of the Plan, including, but not limited to, authorizing disbursements according to the Plan, the determination of all questions relating to eligibility for participation and benefits, interpretation of all Plan provisions, determination of the amount and kind of benefits payable to any Participant, and the construction of disputed and doubtful terms. Such decisions by the Committee shall be conclusive and binding on all parties and not subject to further review.

3.4. INDEMNIFICATION

Neither the Administrator, any member of the Board or of the Committee, nor each other employee or officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, shall be personally liable by reason of any contract or other instrument executed by such individual or on his or her behalf in his or her capacity as the Administrator or as a member of the Board or of the Committee, nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless the Administrator, each member of the Board, each member of the Committee, and each other employee or officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

3.5. NAMED FIDUCIARIES

The Committee, the Administrator and each Participating Company is each a named fiduciary as that term is used in ERISA with respect to the particular duties and responsibilities allocated to each of them.

3.6. ALLOCATION OF RESPONSIBILITIES

The Company may allocate responsibilities for the operation and administration of the Plan consistent with the Plan's terms, including allocation of responsibilities to the Committee and the other Participating Companies. The Company and other named fiduciaries may designate in writing other persons to carry out their respective responsibilities under the Plan, and may employ persons to advise them with regard to any such responsibilities.

ARTICLE 3

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ADMINISTRATION

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

3.7. MULTIPLE CAPACITIES

Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

ARTICLE 3

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ADMINISTRATION

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE

4.

BENEFITS

4.1. PARTICIPANT

An individual is a Participant in this Plan if (a) the individual was hired or rehired by a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) at age 35 or older, and (b) the individual was hired or rehired by a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) at D-band or above, and (c) the individual's Term of Employment includes at least one year of continuous employment for a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) at D-band or above, provided, however, that if an individual was hired or rehired by a Participating Company (or, with respect to Transferred Individuals, a "Participating Company" under the Predecessor Plan) on or after November 18, 1981, such continuous employment was on a full-time basis (as classified by the Company), and (d) the individual terminates employment at Executive level or above.

4.2. ELIGIBILITY

(a) EMPLOYEE

For purposes of this Article 4, the word "Employee" shall mean (a) a Participant, as defined in Section 4.1 and (b) who (i) if hired or rehired by AT&T before November 18, 1981, has completed a Term of Employment of at least five years for one or more Participating Companies (including, with respect to Term of Employment before October 1, 1996, with "Participating Companies" under the Predecessor Plan) at Executive level or above, prior to the last day of the month in which he or she reaches Normal Retirement Age, or (ii) if hired or rehired on or after November 18, 1981, has completed a Term of Employment of at least five years, classified by the Company as full-time, for one or more Participating Companies (including, with respect to Term of Employment before October 1, 1996, with "Participating Companies" under the Predecessor Plan) at Executive level or above, prior to the last day of the month in which he or she reaches Normal Retirement Age, provided, however, that unless approved by the Board, or its delegate, an individual is not an Employee if:

(i) the individual (ineligible to participate in this Plan because he or she was hired after age 35 and/or he or she was hired below D-band) terminates employment with a Participating Company, and is rehired by a Participating Company within one year of his or her termination of employment;

(ii) the individual terminates employment with a company with which a Participating Company has an Interchange Agreement, and is hired by a Participating Company within one year of termination of employment, if the individual has not waived coverage pursuant to the terms of the applicable Interchange Agreement;

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BENEFITS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

(iii) the individual terminates employment with a company in which a Participating Company has an ownership interest, and is hired or rehired by a Participating Company within one year of termination of employment, unless he or she was a Participant in the Plan prior to employment with the Lucent non-Controlled Group company or the nonparticipating Controlled Group company; or

(iv) the individual is employed by a company which is acquired by a Participating Company.

(b) SERVICE AND DISABILITY BENEFIT

Any Employee shall be eligible for a service benefit or a disability benefit pursuant to this Plan if he or she is eligible for a service or a disability pension pursuant to the Pension Plan, including an Employee who is eligible for a service pension as the result of a Transition Leave of Absence or a Transition to Retirement as set forth in the Pension Plan.

(c) DEFERRED BENEFIT

Any Employee is eligible for a deferred benefit pursuant to this Plan if the Employee is not eligible for either a service or a disability pension under the Pension Plan.

(d) CONTINGENT BENEFITS

An Employee whose job category has been reclassified during the Grandfathering Period, defined below, from Executive level to a level below Executive level, and who has completed a Term of Employment of at least five years at (1) Executive level or above, or (2) the reclassified level below Executive level prior to the end of the Grandfathering period, shall be entitled to a frozen benefit under this Plan based upon the terms of this Plan (or the Predecessor Plan) and his or her Term of Employment as of the last day of the Grandfathering Period, provided, however, that such employee shall not be entitled to a benefit under this Plan if he or she has been demoted for performance subsequent to job reclassification and prior to attainment of the requisite number of years of benefit eligibility. The Grandfathering Period shall be January 1, 1986 through the later of December 31, 1988 or the last day of the calendar year in which the job has been reclassified. If an Employee whose job has been reclassified, as described in this Section 4.2(d), is promoted to Executive level or above, his or her benefit under this Plan shall be calculated as if his or her job had never been reclassified.

4.3. BENEFIT AMOUNTS

(a) CALCULATION OF MONTHLY PENSION BENEFIT

(i) FORMULA

The annual benefit amount will equal:

$$A * [(B * C) + (D * E)]$$

+

$$A * [(F * G) + (H * I)]$$

Where:

- A = Mid-Career Pension Credits;
- B = One-half of the Pension Plan Base Formula Multiplier;
- C = Average Base Period Compensation x Term of Employment to the end of the Base Period divided by Total Term of Employment;
- D = One-half of the Lucent Technologies Inc. Non-Qualified Pension Plan ("NQPP") Base Formula Multiplier;
- E = NQPP Average Base Period Compensation x Term of Employment to the end of the Base Period divided by Total Term of Employment;
- F = One-half of the Pension Plan Post-Base Formula Multiplier;
- G = Post-Base Period Compensation divided by Total Term of Employment;
- H = One-half of the NQPP Post-Base Formula Multiplier;
- I = NQPP Post-Base Period Compensation divided by Total Term of Employment.

(ii) MID-CAREER PENSION CREDITS

For purposes of determining A in Section 4.3(a)(i), "Mid-Career Pension Credits" is defined in Section 2.18(a) or (b), as applicable.

(iii) BASE PERIOD

For purposes of determining B and C in Section 4.3(a)(i), "Base Period" shall be the January 1, 1987 to December 31, 1992 pay base averaging period as is set forth in the Pension Plan, provided, however, that if an Employee's benefit under the Pension Plan is determined under an earlier pay base averaging period, such other pay base averaging period shall be used for determining B & C in Section 4.3(a)(i). For purposes of determining D and E in Section 4.3(a)(i), "Base Period" shall be the 1989 Base Period as is set forth in the Basic Formula of the NQPP.

(iv) BASE FORMULA MULTIPLIER

For purposes of determining B in Section 4.3(a)(i), the "Pension Plan Base Formula Multiplier" shall be the numerical percentage which is multiplied by the Employee's average annual Compensation for the Base Period, in the calculation of the Employee's accrued pension benefit under the Pension Plan.

For purposes of determining D in Section 4.3(a)(i), the "NQPP Base Formula Multiplier" shall be the numerical percentage which is multiplied by the

LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

Employee's average annual Short Term Incentive Awards for the Base Period, in the calculation of the Employee's accrued pension benefit under the Basic Formula of the NQPP.

(v) AVERAGE BASE PERIOD COMPENSATION

For purposes of determining C in Section 4.3(a)(i), "Average Base Period Compensation" shall be the Employee's average annual Compensation for the Base Period, in the calculation of the Employee's accrued pension benefit under the Pension Plan, except that Compensation shall be defined for this purpose as not being limited by Code Section 401(a)(17). For purposes of determining E in Section 4.3(a)(i), "NQPP Average Base Period Compensation" shall be the average annual Short Term Incentive Awards for the Base Period in the calculation of the Employee's accrued pension benefit under the Basic Formula of the NQPP.

(vi) TOTAL TERM OF EMPLOYMENT

For purposes of determining C, E, G & I in Section 4.3(a)(i), "Total Term of Employment" shall be the Employee's actual Term of Employment as of retirement or termination of employment.

(vii) POST-BASE FORMULA MULTIPLIER

For purposes of determining F in Section 4.3(a)(i), "Pension Plan Post-Base Formula Multiplier" shall be the numerical percentage which is multiplied by the Employee's Compensation for periods after the Base Period, in the calculation of the Employee's accrued pension benefit under the Pension Plan. For purposes of determining H in Section 4.3(a)(i), the "NQPP Post-Base Formula Multiplier" shall be the numerical percentage which is multiplied by the Employee's Short Term Incentive Awards for periods after the Base Period, in the calculation of the Employee's accrued pension benefit under the Basic Formula of the NQPP.

(viii) POST-BASE PERIOD COMPENSATION

For purposes of determining G in Section 4.3(a)(i), "Post-Base Period Compensation" shall be the Employee's Compensation after the Base Period, in the calculation of the Employee's accrued pension benefit under the Pension Plan, except that Compensation shall be defined for this purpose as not being limited by Code Section 401(a)(17). For purposes of determining I in Section 4.3(a)(i),

"NQPP Post-Base Period Compensation" shall be the Employee's Short Term Incentive Awards for periods after the Base Period, in the calculation of the Employee's accrued pension benefit under the Basic Formula of the NQPP.

(b) EARLY RETIREMENT DISCOUNT

Where an Employee terminates from service under the age of 55 years and commences a service pension under the Pension Plan, his or her monthly service benefit, as set forth in Section 4.2(b), shall be reduced in the same manner as is set forth in the Pension Plan in the case of service pensions.

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(c) DEFERRED BENEFIT AMOUNT

The monthly benefit amount for each person eligible for a deferred benefit under the provisions of Section 4.2(c) shall be calculated exclusively in accordance with the provisions specified as applicable to those receiving a benefit under Section 4.2(b) effective as of the date his or her benefit payments commence pursuant to Section 4.5(b). No recomputation of the benefit shall be made after such date or as a result of amendments made to this Plan subsequent to such date.

(d) MANAGEMENT PENSION ENHANCEMENT

The calculation of benefit amounts and eligibility for a benefit amount shall be determined without regard to the Management Pension Enhancement as is set forth in the Pension Plan.

(e) SPECIAL INCREASES

Monthly service and disability benefit payments, as determined in Section 4.3(a), of retired employees shall be increased by the same percentage and pursuant to the same terms and conditions as are set forth in the Pension Plan.

4.4. TREATMENT DURING SUBSEQUENT EMPLOYMENT

Notwithstanding any other provision of this Plan, employment with any Participating Company or with any Interchange Company (if the Employee is covered by the applicable Interchange Agreement and, if applicable, has not waived coverage pursuant to the terms of the Interchange Agreement), subsequent to retirement or termination of employment with entitlement to any type of benefit described heretofore shall result in the permanent suspension of the benefit for the period of such employment or reemployment. Notwithstanding any other provision of this Plan, employment with any Lucent Controlled Group

company which is not a Participating Company subsequent to retirement or termination of employment with entitlement to any type of benefit described heretofore shall result in the permanent suspension of the benefit for the period of such employment or reemployment if the Employee's benefit under the Pension Plan is suspended by reason of such employment.

4.5. COMMENCEMENT AND DURATION OF PAYMENTS

Except for the reasons specified in Section 4.6, or as may be otherwise determined by the Company, benefits granted under this Plan shall commence as follows:

(a) SERVICE OR DISABILITY BENEFIT

Payment of a service or disability benefit under this Plan shall commence to an Employee at the same time as the Employee's service or disability pension benefits commence under the Pension Plan and shall continue to the Employee's date of death, or, in the case of a disability benefit, until termination of disability pension payments under the Pension Plan, if earlier, subject to Section 4.4 of this Plan.

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

(b) DEFERRED BENEFIT

(i) Payment of a deferred benefit under this Plan shall commence to an Employee at the same time as the Employee's deferred vested pension benefits commence under the Pension Plan and shall continue to the Employee's date of death, subject to Section 4.4 of this Plan.

(ii) Eligibility for a deferred benefit payable before Normal Retirement Age in reduced amounts shall be pursuant to the same terms and conditions as are set forth in the Pension Plan with respect to deferred vested pensions.

4.6. FORFEITURE OF BENEFITS

(a) Notwithstanding Section 4.5, all or a portion of benefits for which an Employee would be otherwise eligible hereunder may be forfeited under the following circumstances, at the discretion of the Board or its delegate:

(i) The Employee is discharged by a Participating Company for cause. For purposes of this Plan, cause shall mean:

(A) The Employee's conviction (including a plea of guilty or nolo contendere) of a felony or any crime of theft, dishonesty or moral

turpitude;

(B) Gross omission or gross dereliction of any statutory or common law duty of loyalty to the Company.

(ii) Determination by the Board or its delegate that the Employee engaged in misconduct in connection with the Employee's employment with a Participating Company or with any other entity of which the Company has an ownership interest.

(iii) The Employee, without the consent of the Board, violates the Lucent Technologies Inc. Non-Competition Guideline.

(b) The portion of the benefit subject to forfeiture under the conditions described in this Section 4.6(a), are as follows:

(i) The total benefit, or any unpaid benefit if the former Employee is in pay status, is subject to forfeiture, except as provided in Section 4.6(b) (ii).

(ii) In the case of an Employee who is retiring at his or her Mandatory Retirement Age the provisions of Section 4.6(b) (i) shall not apply to that portion of the benefits computed under Article 4 of this Plan which, when added to the retirement payments payable under the Pension Plan (prior to any reduction for the cost of a survivor annuity) and the Lucent Technologies Inc. Excess Benefit and Compensation Plan, does not exceed the non-forfeitable retirement income requirement of ADEA Section 12(c) (i).

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BENEFITS

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE

5.

GENERAL PROVISIONS

5.1. NO GUARANTEE OF EMPLOYMENT

Neither the Plan nor any action taken hereunder shall be construed as (i) a contract of employment or deemed to give any Participant the right to be retained in the employment of a Participating Company, the right to any level of compensation, or the right to future participation in the Plan; or (ii) affecting the right of a Participating Company to discharge or dismiss any Participant at any time.

5.2. ASSIGNMENT OR ALIENATION

No service, disability, or deferred benefit under this Plan or any

right or interest in such service, disability, or deferred benefit shall be assignable or subject in any manner to anticipation, alienation, sale, transfer, claims of creditors, garnishment, pledge, execution, attachment or encumbrance of any kind, including, but not limited to, pursuant to any domestic relations order (within the meaning of ERISA Section 206(d)(3) and Code Section 414(p)(1)(B)) or judgment or claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings, and any such attempted disposition shall be null and void.

5.3. BREAKS IN SERVICE

For purposes of this Plan a break in service shall be defined and treated in the same manner as is set forth in the Pension Plan.

5.4. LEAVE OF ABSENCE

For purposes of this Plan, a leave of absence shall be defined and administered in the same manner as is set forth in the Pension Plan.

5.5. METHOD OF PAYMENT

Payments under this Plan shall be made in the same manner as is set forth under the Pension Plan.

5.6. AMOUNTS ACCRUED PRIOR TO DEATH

Benefit amounts accrued but not actually paid at the time of death of a former employee or retiree shall be paid in accordance with the standards and procedures set forth in the Pension Plan.

5.7. FACILITY OF PAYMENT

If the Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Administrator so directs the Company, be paid

to the same person or institution that the benefit with respect to such person is paid or to be paid under the Pension Plan, or to the Participant's lawful spouse, a child, a relative, or institution maintaining or having custody of such person, or any other person deemed by the Administrator to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payments made pursuant to this Section 5.7 shall be in complete discharge of the

liability of the Company, the Board, the Committee, the Administrator, and the Participating Company therefor. If any payment to which a Participant or beneficiary is unclaimed, such payment shall be forfeited after a period of two years from the date the first such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

5.8. OPTION DURING DISABILITY

For an employee who has left the service of a Participating Company and has elected to continue receiving disability benefits which he or she had been receiving prior to termination of employment (including disability benefits under the Lucent Technologies Inc. Officer Long Term Disability and Survivor Protection Plan) and to defer receiving pension payments under the Pension Plan to which he or she is eligible, benefits under this Plan shall be deferred until such time as the employee begins to receive payments under the Pension Plan.

5.9. PAYMENTS UNDER LAW

In case any benefit which the Committee shall determine to be of the same general character as a payment provided by the Plan that is payable to a former employee of a Participating Company under any law now in force or hereafter enacted, the excess only, if any, of the amount prescribed in the Plan above the amount of such payment prescribed by law shall be payable under the Plan; provided, however, that no benefit payable under this Plan shall be reduced by reason of any governmental benefit or pension payable on account of military service, or by reason of any benefit which the recipient would be entitled to receive under the Social Security Act or the Railroad Retirement Act. In those cases where, because of differences in the beneficiaries, or differences in the time or methods of payment, or otherwise, whether or not there is such excess is not ascertainable by mere comparison but adjustments are necessary, the Committee has discretion to determine whether or not in fact any such excess exists and to make the adjustments necessary to carry out in a fair and equitable manner the spirit of the provision for the payment of such excess. Further, in determining whether or not there is an excess, to the extent any payments under any law are considered in determining whether there is any excess payable to an employee under the Pension Plan, the amount of such payments under law shall not be considered under this Plan.

5.10. BINDING EFFECT

The Plan shall be binding upon and inure to the benefit of each Participating Company and its successors and assigns, and to each Participant, his or her successors, designees, beneficiaries, designated annuitants, and estate. The Plan shall also be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of a Participating Company. Nothing in the Plan shall preclude a Participating Company from

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

merging or consolidating into or with, or transferring all or a portion of all of its assets to, another corporation which assumes the Plan or a portion of the Plan and all or a portion of the obligations of a Participating Company hereunder. Each Participating Company agrees that it will make appropriate provision for the preservation of the rights of Participants and beneficiaries under the Plan in any agreement or plan or reorganization into which it may enter to effect any merger, consolidation, reorganization into which it may enter to effect any merger, consolidation, reorganization, or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets, the term "Participating Company" shall refer to such other corporation and the Plan shall continue in full force and effect.

5.11. SEVERABILITY

If any section, clause, phrase, provision, or portion of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of this Plan and shall not affect the application of any section, clause, provision, or portion hereof to other persons or circumstances.

5.12. HEADINGS

The captions preceding the sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provisions of the Plan.

5.13. ENTIRE PLAN

This written Plan document is the final and exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in Article 3. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to Section 6.1.

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE

6.

6.1. AMENDMENT AND TERMINATION

Pursuant to ERISA Section 402(b)(3), the Board or its delegate, (acting pursuant to the Board's delegations of authority then in effect) may from time to time amend, modify or change the Plan at any time as set forth in this document, and the Board or its delegate (acting pursuant to the Board's delegations of authority then in effect) may terminate the Plan at any time. Plan amendments may include, but are not limited to, elimination or reduction in the level or type of benefits provided to employees. Any and all Plan amendments may be made without the consent of any employee. Notwithstanding the foregoing, no such amendment, suspension or termination shall retroactively impair or otherwise adversely affect the accrued benefit of any employee as of the date of such action.

ARTICLE 6

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PLAN MODIFICATION

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE

7.

SOURCE OF PAYMENT

7.1. SOURCE OF PAYMENTS

Benefits arising under this Plan and all costs, charges, and expenses relating thereto will be payable from the Company's general assets. The Company may, however, establish a trust to pay such benefits and related expenses, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges, and expenses relating thereto. To the extent that the funds held in the trust, if any, are insufficient to pay such benefits, costs, charges and expenses, the Company shall pay such benefits, costs, charges, and expenses from its general assets.

7.1. UNFUNDED STATUS

The Plan at all times shall be entirely unfunded for purposes of the Code and ERISA and no provision shall at any time be made with respect to segregating any assets of a Participating Company for payment of any benefits hereunder. Funds that may be invested through a trust described in Section 7.1 hereunder shall continue for all purposes to be part of the general assets of the Participating Companies which invested the funds. The Plan constitutes a mere promise by the Participating Companies to make benefit payments under this Plan in the future. No Participant shall have any interest in any particular assets of a Participating Company by reason of the right to receive a benefit under the Plan and to the extent the Participant acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any

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LUCENT TECHNOLOGIES INC. MID-CAREER PENSION PLAN

ARTICLE
8.

DISPOSITION OF PARTICIPATING COMPANY

8.1. SALE, SPIN-OFF, OR OTHER DISPOSITION OF PARTICIPATING COMPANY

(a) Subject to Section 5.10, in the event the Company sells, spins off, or otherwise disposes of a Subsidiary or an Affiliated Corporation, or disposes of all or substantially all of the assets of a Subsidiary or an Affiliated Corporation such that one or more Participants terminate employment for the purpose of accepting employment with the purchaser of such stock or assets, any person employed by such Subsidiary or Affiliated Corporation who ceases to be an employee as a result of the sale, spin-off, or disposition shall be deemed to have terminated his or her employment with a Participating Company and be eligible for a Mid-Career Pension benefit commencing at the same time as his or her benefit, if any, commences under the Pension Plan.

(b) Notwithstanding the foregoing provisions of this Section 8.1, and subject to Section 5.10, if, as part of the sale, spin-off, or other disposition of the stock or assets of a Subsidiary or Affiliated Corporation, the Subsidiary or Affiliated Corporation, its successor owner, or any other party agrees in writing to assume the liability for the payment of the Mid-Career Pension benefit to which the Participant would have been entitled under the Plan but for such sale, spin-off, or other disposition, then the entitlement of the Participant to a Mid-Career Pension benefit under this Plan shall terminate. Any subsequent entitlement of the former Participant to the Mid-Career Pension benefit shall be the sole responsibility of the assuming party. Upon the assumption of the liability for the payment of a Mid-Career Pension benefit by AT&T Corp. pursuant to Section 7.1 of the Management Interchange Agreement or Section 3.1 of the Occupational Interchange Agreement, both dated as of April 8, 1996, between Lucent Technologies Inc. and AT&T Corp., the entitlement of a Transition Individual (as defined in Section 1.38(a) or (d) of the Management Interchange Agreement or Section 1.30(a) or (d) of the Occupational Interchange Agreement), to a Mid-Career Pension benefit under this Plan shall terminate.

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IN WITNESS WHEREOF, the Company has caused this Plan to be effective on October 1, 1996 and to be executed on this ___ day of _____, 1996.

For Lucent Technologies Inc.

By: _____
Curtis R. Artis
Senior Vice President, Human Resources

Attest: _____
Pamela F. Craven
Vice President - Law
Assistant Secretary

LUCENT TECHNOLOGIES INC.
NON-QUALIFIED PENSION PLAN

As effective October 1, 1996

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ARTICLE 1
PURPOSE

This Lucent Technologies Inc. Non-Qualified Pension Plan (the "Plan") is an Amendment and Restatement of predecessor programs sponsored by AT&T that were first adopted on October 1, 1980, to provide supplemental pension, disability and death benefits to certain employees of AT&T and the Company. The Plan is intended to constitute an unfunded plan of deferred compensation for a select group of management or highly compensated employees for purposes of Title I of ERISA.

The Plan is a successor to the AT&T Non-Qualified Pension Plan in effect as of September 30, 1996, with respect to Transferred Individuals (as defined in Article 2 of the Employee Benefits Agreement dated February 1, 1996, and as amended and restated effective March 29, 1996). The Plan assumes and is solely responsible for all liabilities as of September 30, 1996, relating to Transferred Individuals under the Plan. Accordingly, the Plan shall recognize such service and compensation as of September 30, 1996, with respect to Transferred Individuals as would be recognized by the AT&T Non-Qualified Pension Plan in effect as of September 30, 1996. To the extent that the Plan refers to dates, events, agreements, elections, or designations before October 1, 1996 relating to Transferred Individuals, such dates, events, agreements, elections and designations shall be recognized as if Lucent Technologies Inc. and the Plan were in existence at the applicable time. For Transferred Individuals who terminated employment before October 1, 1996, the provisions of the AT&T Non-Qualified Pension Plan in effect at termination of the Transferred Individual's employment shall be deemed to be incorporated in this Plan and shall govern.

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ARTICLE 2
DEFINITIONS

Whenever used herein, the terms set forth below have the following meanings unless a different meaning is clearly required by the context:

2.01. "ACTIVE SERVICE" means the period of active employment but excluding any time the individual is absent on account of disability and receiving or eligible to receive sickness or accident disability benefits under the Company's Sickness and Accident Disability Benefit Plan.

2.02. "ADEA" means the Age Discrimination in Employment Act of 1967, as it

may be amended from time to time.

2.03. "ADJUSTED CAREER AVERAGE PAY" as used in the Alternate Formula described in SECTION 4.02(B), means (i) in the case of an Officer, the sum of A and B below divided by such Officer's Term of Employment and (ii) in the case of an Executive Employee, the amount described in B below divided by such Executive Employee's Term of Employment:

A. the sum of (1) the average of an Officer's annual Short Term Incentive Awards and any salary amounts deferred under the Lucent Technologies Inc. Senior Management Incentive Award Deferral Plan includable in the 1989 Base Period multiplied by his or her Term of Employment as of December 31, 1989, (2) his or her Short Term Incentive Awards and any salary amounts deferred under the Lucent Technologies Inc. Senior Management Incentive Award Deferral Plan includable under the Basic Formula for the period from January 1, 1990, to the date of retirement.

B. the sum of (a) the product of (i) the Participant's average annual "Compensation" as defined in the Pension Plan for the 1992 Base Period and (ii) the Participant's Term of Employment as of December 31, 1992, and (b) the Participant's "Compensation" for the period from January 1, 1993, to the last day of his or her Term of Employment.

2.04. "ADMINISTRATOR" means the person identified as the Pension Plan Administrator under the Pension Plan or such other person or entity designated by the Company.

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PAGE 5

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2.05. "AFFILIATED CORPORATION" means any corporation or other entity of which 50 percent or more of the voting stock is owned directly or indirectly by the Company.

2.06. "AT&T" means AT&T Corp. (formerly American Telephone and Telegraph Company), a New York Corporation, or its successors.

2.07. "1989 BASE PERIOD" means the period from January 1, 1987, to December 31, 1989.

2.08. "1992 BASE PERIOD" means the period from January 1, 1990, to December 31, 1992.

2.09. "BOARD" means the Board of Directors of Lucent Technologies Inc.

2.10. "COMMITTEE" means the Employee Benefits Committee appointed by the Company to administer the Pension Plan.

2.11. "COMPANY" means Lucent Technologies Inc. or its successors.

2.12. "COVERED COMPENSATION BASE" means an amount which is the average of the maximum wage amounts on which an employee's liability for Social Security taxes were determined for each year beginning with January 1, 1958, and ending with the year the year in which the calculation is made.

2.13. "DELEGATE" means the Board's authorized representative designated pursuant to a delegation of authority by the Board to act on behalf of or to perform one or more administrative responsibilities under the Plan.

2.14. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.15. "EXECUTIVE EMPLOYEE" means any employee of a Participating Company employed in a position evaluated or classified as an "Executive" or equivalent position by the Company, except that no employee who is assigned to such a

position on a temporary basis after being notified in writing of the temporary status of such assignment shall be an "Executive Employee" for any purpose under this Plan.

2.16. "LONG TERM DISABILITY PLAN" means the Lucent Technologies Inc. Officers Long Term Disability and Survivor Protection Plan.

2.17. "NORMAL RETIREMENT AGE" means the Normal Retirement Age determined under the Pension Plan.

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2.18. "OFFICER" means any employee of a Participating Company holding a position evaluated or classified above the "Executive" level by the Company, except that no employee who is assigned to such a position on a temporary basis after being notified in writing of the temporary status of such assignment shall be an "Officer" for any purpose under this Plan.

2.19. "PARTICIPANT" means an Officer who is eligible for a service pension, deferred vested pension or disability pension under the terms of the Pension Plan or an Executive Employee who is eligible for a service pension under the terms of the Pension Plan.

2.20. "PARTICIPATING COMPANY" means the Company and any Affiliated Corporation which has elected, with the approval of the Committee as required by SECTION 8.01, to participate in the Plan.

2.21. "PENSION PLAN" means the Lucent Technologies Inc. Management Pension Plan, as amended from time to time.

2.22. "PENSION PLAN BENEFIT" means the annual pension benefit determined under the Pension Plan without regard to the limitations on covered compensation under Section 401(a)(17) of the Internal Revenue Code of 1986 or the limitations on benefit accruals and payments under Section 415 of the Internal Revenue Code of 1986, and before any reduction in such pension benefit for the cost of a survivor annuity or for early retirement.

2.23. "PLAN" means this Lucent Technologies Inc. Non-Qualified Pension Plan, as set forth herein and as amended from time to time.

2.24. "POSITION RATE" means an amount established periodically by the Company for each Officer position upon which base salaries are administered.

2.25. "PREDECESSOR PLAN SPONSOR" means AT&T and any other corporation or entity that enters into an agreement or agreements providing for the assumption of liabilities by this Plan comparable to the Management Interchange Agreement dated as of April 8, 1996, and the Employee Benefits Agreement dated February 1, 1996, and amended and restated as of March 29, 1996, between AT&T and the Company.

2.26. "SHORT TERM INCENTIVE AWARD" means the actual amount awarded (including any amounts deferred pursuant to the Lucent Technologies Inc. Officers Incentive Award Deferral Plan) annually to an Officer pursuant to the Lucent Technologies Inc. Senior Management Short Term Incentive Plan or predecessor short term incentive plans. Short Term Incentive Awards shall, for

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purposes of this Plan, be considered to be awarded on the last day of the performance period with respect to which they are earned.

2.27. "STANDARD AWARD" means an amount determined periodically for each Position Rate under the Lucent Technologies Inc. Senior Management Short Term Incentive Plan or predecessor short term incentive plans.

2.28. "SUCCESSOR PLAN SPONSOR" means any corporation or entity that enters into an agreement or agreements providing for the assumption of liabilities arising under this Plan comparable to the Management Interchange Agreement dated as of April 8, 1996, and the Employee Benefits Agreement dated February 1, 1996, and amended and restated as of March 29, 1996, between AT&T and Lucent Technologies Inc.

2.29. "TERM OF EMPLOYMENT" means the period of employment described in Section 2.38 of the Pension Plan and, unless expressly limited by the context, shall also mean the number of full or partial calendar years comprising Years of Service as defined in Section 2.39 of the Pension Plan.

2.30. "TOTAL COMPENSATION" As used in the Alternate Minimum Formula described in SECTION 4.02(C) means the sum of (i) the elements of Compensation as defined in Section 4.2(f) of the Pension Plan, (ii) salary amounts deferred under the Lucent Technologies Inc. Officers Incentive Award Deferral Plan, and (iii) Short Term Incentive Awards.

2.31. "TRANSITION PARTICIPANT" means a Participant as to whom the responsibility and liability for the payment of benefits accrued or payable under a plan or plans of a Predecessor Plan Sponsor has been assumed by the Company and are payable under this Plan.

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ARTICLE 3
PARTICIPATION AND ELIGIBILITY

3.01. PARTICIPATION.

All Officers and Executive Employees who meet the criteria set forth in SECTION 2.18 shall be eligible to participate in this Plan.

3.02. ELIGIBILITY.

- (a) SERVICE BENEFIT. Each Participant who is eligible for a service pension pursuant to the terms of the Pension Plan (excluding for purposes of this Section 3.02(a) the effect of any management pension enhancement pursuant to Section 4.2(h) of the Pension Plan) and who meets the relevant requirements of Article 4 shall be eligible for a service benefit pursuant to this Plan.
- (b) DEFERRED BENEFIT.
 - (i) Except as otherwise specified in Sections 4.04 and 4.05, an Officer who is eligible for a deferred vested pension pursuant to the terms and conditions of the Pension Plan is eligible for a deferred benefit pursuant to this Plan.
 - (ii) An Officer who leaves the service of a Participating Company and who has elected to have his or her deferred vested pension payable early in reduced amounts pursuant to the terms and conditions of the Pension Plan shall be deemed to have elected to have his or her deferred benefits under this Plan payable early in reduced amounts under the same terms and conditions as set forth in the Pension Plan. In the event of such an election, the amount of deferred benefit otherwise payable at Normal Retirement Age under this Plan to such participant shall be reduced in accordance with the same formulas as are set forth in the Pension Plan for the

discounting of the deferred vested pension.

- (iii) The Committee, the Administrator or a Delegate, as appropriate, shall notify each Officer who leaves the employment of such Participating Company (except to take employment without a break in service with another Participating Company or other Affiliated Corporation) of his

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or her eligibility, if any, for a deferred benefit by mailing, within a reasonable time after his or her leaving, a notice to his or her last known address as shown on the Participating Company's records.

- (c) **DISABILITY BENEFIT.** A Participant who, while an Officer, has become eligible for a Disability Pension pursuant to Section 4.1(c) of the Pension Plan shall be eligible for a Disability Benefit hereunder. Should the Disability Pension be discontinued (other than by reason of conversion to a Service Pension) pursuant to the terms of the Pension Plan, the Disability Benefit hereunder shall be discontinued as well.

- (d) **CONTINGENT BENEFITS.**

- (i) An Officer who, on or after October 1, 1996, is reassigned to a position evaluated at or below the Executive level for reasons other than unsatisfactory performance, and who has satisfied the vesting requirements of SECTION 3.02(a) OR SECTION 3.02(b) of this Plan as of the reassignment date, will be eligible for Officers benefits upon his or her termination of employment provided he or she is then eligible for pension payments under the Pension Plan. The determination of the amount of such former Officer's benefits will be based on his or her Term of Employment completed as of the reassignment date and shall be computed in accordance with SECTION 4.02(a) in effect on such date.

- (ii) An Officer who, on or after October 1, 1996, is reassigned to a position evaluated below the Executive level for reasons other than unsatisfactory performance, and who has not satisfied the vesting requirements of this Plan as of the reassignment date, will not be eligible for benefits under this Plan upon his or her termination of employment.

- (iii) An Officer who, on or after October 1, 1996, is reassigned to a position evaluated at the Executive level for reasons other than unsatisfactory performance, and who has satisfied the vesting requirements of SECTION 3.02(a) OR SECTION 3.02(b) of this Plan as of the reassignment date shall be eligible for a benefit (A) under SECTION 3.02(a), if such Officer is eligible for a service pension under Section 4.1(a) of the Pension Plan on the last day of his or her Term of Employment or (B) under SECTION 3.02(b), if such Officer is not eligible for

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the last day of his or her Term of Employment. The benefit of any reassigned Officer described in this SECTION 3.02(d)(III)(a) shall be computed based on his or her Term of Employment and in accordance with SECTION 4.02(b) in effect on the last day of such Term of Employment. The benefit of any reassigned Officer described in this SECTION 3.02(d)(III)(b) shall be computed based on his or her Term of Employment completed as of the last day of the year in which his or her job is reclassified and in accordance with SECTION 4.02(a) in effect as of the date of such reassignment.

- (iv) A Participant, other than an Officer whose job is classified or reclassified during or after 1986 to a level below Executive will be eligible for the service benefit describe in SECTION 3.02(a) and computed in accordance with SECTION 4.02(b) based on his or her Term of Employment completed as of the last day of 1988 or if later, the last day of the year in which his or her job is reclassified and based on the provisions of the Plan in effect on such day, provided he or she is then eligible for a service pension under the Pension Plan, and further provided he or she is not demoted subsequent to such day because of unsatisfactory job performance prior to retiring under the Pension Plan.

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ARTICLE 4
PENSION BENEFITS

4.01. BENEFIT ELIGIBILITY.

- (a) OFFICERS. The following provisions govern the eligibility for benefits of Officers whose retirement date is on or after October 1, 1996.
 - (i) The benefit of an Officer who had at least five Years of Service as an Officer as of December 31, 1993, will be the greater of the annual benefit amounts determined under the Basic Formula, the Alternate Formula or the Alternate Minimum Formula described in SECTIONS 4.02(a), (b) and (c) respectively.
 - (ii) The benefit of an Officer who is not described in SECTION 4.01(a)(i) but who is eligible for a service pension under Section 4.1(a) of the Pension Plan as of the last day of his or her Term of Employment will be the greater of the

annual benefit amounts under the Basic Formula or the Alternate Formula described in SECTIONS 4.02(a) and (b) respectively.

(iii) The benefit of an Officer who is not described in SECTIONS 4.01(a)(i) or (ii) but who is eligible for a deferred vested pension under Section 4.1(b) or a disability pension under Section 4.1(c) of the Pension Plan as of the last day of his or her Term of Employment will be the amount determined under the Basic Formula described in SECTION 4.02(a).

(iv) The benefit payable to the surviving lawful spouse of an Officer shall be determined in accordance with SECTION 4.02(d)(i), if the Officer is an employee at the time of death and in accordance with SECTIONS 4.02(d)(ii) and (iii), if the Officer is not an employee at the time of death.

(b) EXECUTIVE EMPLOYEES. The annual service benefit of an Executive Employee whose retirement date is on or after October 1, 1996, will be the amount computed under the Alternate Formula described in Section 4.02(b). The benefit payable to the surviving lawful spouse of an Executive Employee shall be determined in accordance with Section 4.02(d)(i), if the Executive Employee is an employee at the time of death.

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4.02. BENEFIT FORMULAS.

(a) BASIC FORMULA. The annual service or disability benefit under the Basic Formula shall be determined by adding (A) the product of one and five-tenths percent (1.5%) of the average annual Short Term Incentive Awards for the 1989 Base Period and the Officer's Term of Employment as of December 31, 1989 and (B) the sum of one and six-tenths percent (1.6%) of the Short Term Incentive Award for each successive full or partial calendar year of employment following 1989.

(i) Early Retirement Discount. The monthly service benefit, determined in accordance with the Basic Formula of this SECTION 4.02(a), for each Officer who is granted a service benefit for reasons other than total disability as a result of sickness or injury, shall be reduced by one-half percent (0.5%) for each calendar month or part thereof by which his or her age at time benefits are first paid under this Plan is less than fifty-five (55) years, except that each Officer retired with thirty (30) or more years of service shall receive a monthly benefit allowance reduced by one-quarter percent (0.25%) for each calendar month or part thereof by which such Officer's age at the time benefits are first paid under this Plan is less than fifty-five (55) years.

(ii) Deferred Benefit Amount. The monthly benefit for each Officer eligible for a deferred

benefit under the provisions of SECTION 3.02(b) shall be calculated exclusively in accordance with the provisions specified as applicable to those receiving a benefit under this SECTION 4.02(a) effective as of the date such Officer leaves the service of a Participating Company.

(iii) An Officer who leaves the service of a Participating Company with eligibility for a deferred benefit in accordance with SECTION 3.02(b) but who is not entitled to any other class of pension or benefit under this Plan shall not be considered a retiree pursuant to the Pension Plan or a retired Officer.

(b) ALTERNATE FORMULA. The annual benefit under the Alternate Formula shall be the excess of B over A, where A equals the Participant's Pension Plan Benefit and B equals the product of one and seven-tenths percent (1.7%) of the Participant's Adjusted Career Average Pay, less eight-tenths of one percent (0.8%) of the Participant's Covered Compensation Base,

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and the Participant's Term of Employment. The service benefit under this Alternate Formula will be reduced in case of retirement before age 60 by applying the appropriate reduction factor from the Table of such factors shown in Appendix B to such benefit.

(c) ALTERNATE MINIMUM FORMULA. The annual benefit under the Alternate Minimum Formula in this Section 4.02(c) shall be an amount equal to (A) the product of the greater of the amount determined under Formula A or the amount determined under Formula B, multiplied by the applicable factor set forth in Appendix A, less (B) the amount of the Officer's Pension Plan Benefit.

(i) Formula A. For purposes of the Alternate Minimum Formula in this SECTION 4.02(c), Formula A means the sum of (a) the product of one and five tenths percent (1.5%) of average calendar year Total Compensation for the 1992 Base Period and the Term of Employment as of December 31, 1992, and (b) one and six tenths percent (1.6%) of Total Compensation for the calendar year 1993 actuarially reduced in case of retirement before age 55 by applying the appropriate reduction factor set forth in SECTION 4.02(a) (i).

(ii) Formula B. For purposes of this Alternate Minimum Formula in this SECTION 4.02(c), Formula B means the product of (a) the excess of one and seven tenths percent (1.7%) of Adjusted Career Average Pay, over eight tenths of one percent (0.8%) of the Covered Compensation Base, and (b) the Officer's Term of Employment at December 31, 1993, reduced in case of retirement before age 60 by applying the appropriate reduction factor set forth in APPENDIX B.

(d) AUTOMATIC SURVIVOR ANNUITIES.

(i) Before-Retirement. In the event of the death

of an active Participant whose Term of Employment includes at least fifteen years or who is eligible for a service benefit under SECTION 4.02(a) at the time of his or her death and who leaves a surviving lawful spouse, such surviving lawful spouse shall receive, effective on the day following the date of death, a survivor annuity in the amount of forty five percent (45%) of the benefit which would have been payable had such Participant retired with a service benefit, regardless of his or her actual eligibility therefor, on the date of his or her death. For purposes of the automatic survivor annuity

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provided in this SECTION 4.02(d)(i), the early retirement discounts in SECTIONS 4.02(a)(i) and 4.02(b)(i) shall not apply.

- (ii) Post-Retirement. Upon the death of an Officer receiving a service or disability benefit under this Plan who retired on or after December 31, 1986 or retired prior to that date but had not reached age 55 on or before December 31, 1983, a survivor annuity in the amount of 45% of such retired Officer's monthly benefit amount will be payable beginning on the day following the date of his or her death to the surviving lawful spouse of such retired Officer.
- (iii) Post-Retirement Transition Cases. In the case of a deceased Officer who retired prior to December 31, 1987, the survivor annuity payable under SECTION 4.02(d)(ii) above, shall be increased by the amount required, if any, to bring the total monthly survivor annuity payable under this Plan to an amount computed by multiplying the product of the average of such Officer's Standard Awards for a maximum of six (6) years prior to his or her retirement year and sixty-five hundredths percent (0.65%) by his or her Term of Employment, and dividing the result by twelve (12); the Standard Awards includable in this computation cannot exceed sixty percent (0.60%) of such Officer's Position Rate.

- (e) SPECIAL INCREASES. Service and disability benefit payments, as determined under SECTIONS 4.02(a) and (b), of retired Officers and service benefit payments, as determined under SECTION 4.02(b), of retired Executive Employees, and survivor annuities in pay status under SECTIONS 4.02(d)(i), (d)(ii), and (d)(iii) shall be increased by the same percentage and pursuant to the same terms and conditions as are set forth for comparable payments, from time to time, in the Pension Plan.

4.03. MONTHLY PAYMENTS.

The annual benefit determined under this ARTICLE 4 shall be divided by twelve (12) and shall be payable monthly or at such other periods as the Committee or the Administrator, as applicable, may determine in each case.

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4.04. COMMENCEMENT AND DURATION OF PAYMENTS.

- (i) Subject to the exception set forth in paragraph (ii) herein, benefits granted under this Plan shall commence on the date the benefits under the Pension Plan are first paid to the Participant and shall, except for the reasons specified in SECTIONS 3.02(c), 4.05 and 9.12, continue to the death of the recipient.
- (ii) Any benefit payable to an Officer pursuant to SECTION 4.02(c) who had at least five Years of Service as an Officer as of December 31, 1993, and as to whom the sum of his or her attained age and Term of Employment equaled or exceeded seventy (70) as of that date shall be payable as of the last day of his or her Term of Employment and shall, except for the reasons specified in SECTION 4.05 AND SECTION 9.12, continue to his or her death.
- (iii) Benefit amounts accrued and payable under this ARTICLE 4 but not actually paid at the time of death of a Participant shall be paid in accordance with the standards and procedures set forth in the Pension Plan.

4.05. TREATMENT DURING SUBSEQUENT EMPLOYMENT.

When a Participant's Term of Employment includes service with more than one Participating Company or with a company that is not a Participating Company, the last Participating Company to employ him or her immediately prior to his or her retirement or termination of employment with entitlement to a benefit hereunder shall be responsible for the full benefit under this Plan. Employment with any Participating Company subsequent to retirement or termination of employment with entitlement to any type of benefit under this Plan shall result in the permanent suspension of the benefit for the period of such employment or reemployment to the extent and in a manner consistent with the terms and conditions applicable to the suspension of benefit payments under the Pension Plan. Payment of a Participant's benefit under this Plan shall resume simultaneously with the recommencement of his or her benefits under the Pension Plan. Following recommencement of payment under this Plan, the Participant (or surviving lawful spouse) shall not be eligible to receive any payments under this Plan that would otherwise have been payable but for the suspension.

4.06. METHOD AND FORM OF PAYMENT.

Payments under this Article 4 shall be made in the same manner as set forth under the Pension Plan.

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ARTICLE 5
DEATH BENEFITS

5.01. PARTICIPATION.

Upon the death of an active Officer or an Officer who, on or after October 1, 1996, retires on a service or disability pension under the

Pension Plan (excluding for purposes of this Section 5.01 the effect of any management pension enhancement pursuant to Section 4.2(h) of the Pension Plan) or who terminates employment with eligibility to receive payments under the Long Term Disability Plan, a Death Benefit shall be provided under this Article 5. The Death Benefits under this Article 5 are in addition to the accident, sickness and pensioner death benefits under the Death Benefit Plan in the Pension Plan and shall be paid to the same beneficiary or beneficiaries and administered in the same manner as such benefits under the Pension Plan.

5.02. DEATH BENEFITS.

(a) PRIMARY DEATH BENEFIT. In the case of the death of an Officer described in Section 5.01 a benefit equal to one year's wages shall be paid. For purposes of determining the benefit payable under this Section 5.02(a) with respect to an Officer who dies on or after October 1, 1996, one year's wages is defined as the greater of (A) his or her Short Term Award for the calendar year preceding the earlier of his or her date of death or date of retirement, or (B) the Officer's Short Term Award payable with respect to any later partial calendar year period of service.

(b) OTHER POST-RETIREMENT DEATH BENEFITS. An additional death benefit described in this Section 5.02(b) shall be provided under this Plan in the case of an Officer who retires on a service or disability Pension under the Pension Plan after October 1, 1996. The death benefits under Section 5.02(b) (ii) are provided also in the case of an Officer who terminates employment with entitlement to Long Term Disability Plan payments.

(i) Group Life Differential. Upon the death of an Officer age 66 or older who retired after December 31, 1986, and before October 1, 1990, the difference between the amount of his or her Basic Group Life Insurance under the Company's Group Life Insurance Program which was in effect on the day before his or her sixty-sixth (66) birthday and the amount of such insurance in effect on the date of his or her death shall be paid in a lump sum to a beneficiary or beneficiaries designated by the Officer, or, if there is no such beneficiary, to the Officer's Estate.

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(ii) Tax Differential. An individual who is the beneficiary of a deceased retired Officer or an Officer who terminated employment with entitlement to Long Term Disability payments and who receives one or more of the benefits listed below, shall be eligible to receive, under this SECTION 5.02(B) (I), a tax differential payment related to the difference between the beneficiary's assumed Federal Income tax liability on such benefit or benefits and the beneficiary's assumed Federal Income Tax liability had such benefit or benefits been funded by the proceeds of a life insurance policy on the life of the retired Officer:

(A) Post-Retirement Survivor Annuity

described in Section 4.02(d)(ii),

- (B) Pensioner Death Benefit described in SECTION 5.02(a),
- (C) Group Life Differential Death Benefit described in SECTION 5.02(b)(i),
- (D) Pensioner Death Benefit described in Paragraph 3 of Section 5 of the Pension Plan, and
- (E) The Death Benefit described in Section 5 of the Long Term Disability Plan.

Federal Estate Tax and state and local inheritance or income taxes shall not be considered in computing the tax differential payment under this SECTION 5.02(b)(i).

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ARTICLE 6
SOURCE OF PAYMENT

6.01. SOURCE OF PAYMENTS.

The Company may establish a trust to hold assets to be used to make benefit payments under the terms of this Plan, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. Funds invested hereunder shall, for purposes of this Plan, be considered to be part of the general assets of the Participating Company which invested the funds, and no Participant, beneficiary or lawful spouse shall have any interest or right in such funds. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges and expenses relating thereto. To the extent that the funds held in the trust are insufficient to pay such benefits, costs, charges and expenses, the Company or the responsible Participating Company shall pay such benefits, costs, charges and expenses from its general assets. In addition, the Company may, in its sole discretion, direct that payments required under this Plan to any Participant or surviving lawful spouse be made through the purchase and distribution of one or more nontransferable annuity contracts or cause the trustee of the trust to purchase and distribute such annuity contracts. Any such purchase and distribution of an annuity contract shall be a full and complete discharge of the Plan's, the Company's and the Participating Companies' liability for payments assumed by the issuer of the annuity contract. Further, the Senior Vice President, Human Resources, may determine, in his sole discretion, to pay additional sums to any Senior Manager, from the Company's general assets or from the trust, if any, to reimburse the Senior Manager for additional federal and state income taxes estimated to be incurred by reason of the distribution of any such annuity contracts. The Senior Vice President, Human Resources shall establish a methodology or methodologies for determining the amount of such additional sums. The methodology or methodologies selected shall be those that the Senior Vice President, Human Resources determines, in his sole discretion, to be the most effective and administratively feasible for the purpose of producing after tax periodic benefit payments that approximate the after tax periodic benefit payments that would have been received by Participants in the absence of the distribution of the annuity contract.

6.02. UNFUNDED STATUS.

The Plan at all times shall be entirely unfunded for purposes of the Internal Revenue Code of 1986, and ERISA and, except as provided in SECTION 6.01, no provision shall at any time be made with respect to segregating any assets of a Participating Company for payment of any benefits hereunder. The Plan constitutes a mere promise by the Participating Company to make payments, if any,

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in the future. No Participant, surviving lawful spouse or any other person shall have any interest in any particular assets of a Participating Company by reason of the right to receive a benefit under the Plan and to the extent the Participant, surviving lawful spouse or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of a Participating Company.

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ARTICLE 7
ADMINISTRATION OF THE PLAN

7.01. ADMINISTRATION AND AUTHORITIES.

The Plan shall be administered by the Company and it shall have full discretionary authority to manage and control the operation and administration of the Plan, including the power to interpret provisions of the Plan, make determinations of fact, promulgate rules and regulations, determine benefit eligibility of individual and classes of Participants (including, without limitation, determinations of a Participant's applicable Term of Employment, Position Rate and rate of pay), delegate its powers and duties hereunder to the Committee, the Administrator or others and take such other action as it shall find necessary and appropriate to implement the provisions of the Plan. The Committee and the Administrator may retain attorneys, consultants, accountants or other persons (who may be employees of the Company or an Affiliated Corporation) to render advice and assistance and may delegate any of the authorities conferred on it to such persons as it shall determine to be appropriate to effect the discharge of its duties hereunder. The Company, the Predecessor Plan Sponsor, the Affiliated Corporations and any of their Officers and Executive Employees shall be entitled to rely upon the advice, opinions, and determinations of any such persons. Any exercise of the authorities set forth in this Section, whether by the Company, the Committee, the Administrator or their Delegate, shall be final and binding upon the Company, its Affiliated Corporations, their officers, directors and affected Participants and beneficiaries.

7.02. COMMITTEE.

The Company has delegated to the Committee authority to make the final determination to grant or deny claims for benefits under the Plan with respect to Participants, surviving lawful spouses, and other beneficiaries and to authorize disbursements according to the terms of the Plan.

7.03. INDEMNIFICATION.

No member of the Board, the Committee or the Administrator shall be personally liable by reason of any contract or other instrument executed by such individual or on his or her behalf in his or her capacity as a member of the Board, Committee or the Administrator nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Board, each member of

the Committee, the Administrator and each other employee, officer, or director of the Company or any Participating Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including attorneys' fees) or liability

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(including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

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7.04. BENEFIT CLAIMS AND APPEALS.

- (a) BENEFIT CLAIMS. All claims for benefit payments under the Plan shall be submitted in writing by Participants to the person designated by the Company to make determinations as to eligibility for benefits under the Plan and such person shall notify the Participant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days in unusual cases provided that written notice of the extension is furnished to the claimant prior to the commencement of the extension. In the event the claim is denied, such notice shall (i) set forth the specific reason or reasons for denial, (ii) make reference to the pertinent Plan provisions on which the denial is based, (iii) describe any additional material or information necessary before the Participant's request may be acted upon favorably, and (iv) explain the procedure for appealing the adverse determination.
- (b) BENEFIT APPEALS. A Participant whose claim for benefits has been denied may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the claimant is relying, and (iii) include copies of any other documents or materials which may support favorable consideration of the claim. The Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in unusual cases provided that written notice of the extension is furnished to the claimant prior to the commencement of the extension. The decision of the Committee shall be set forth in writing, include specific reasons for the decision, refer to pertinent Plan provisions on which the decision is based, and shall be final and binding on all persons affected thereby.

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ARTICLE 8
ADOPTION, AMENDMENT AND TERMINATION

8.01. ADOPTION OF PLAN.

Any Affiliated Corporation that participates in the Pension Plan may, with the consent of the Committee, elect to participate in the Plan. Such Affiliated Corporation shall become a Participating Company as of the date specified by the Committee in its resolution approving the

participation of the Affiliated Corporation in the Plan.

8.02. AMENDMENT AND TERMINATION.

The Company is the Sponsor of the Plan and the Board or its Delegate, may from time to time amend, modify or change the Plan as set forth in this document, and the Board or its Delegate (acting pursuant to the Board's delegations of authority then in effect) may terminate the Plan at any time. Plan amendments may include, but are not limited to, elimination or reduction in the level or type of benefits provided to any class or classes of Participant (and surviving lawful spouses). Any and all Plan amendments may be made without the consent of any Participant, surviving lawful spouse or beneficiary. Notwithstanding the foregoing, no such amendment, suspension or termination shall retroactively impair or otherwise adversely affect the rights of any Participant or surviving lawful spouse to benefits under the Plan to which they have previously become entitled as a result of a Participant's satisfaction of the vesting schedule of this Plan which is the same as and never will be greater than the vesting schedule under the Pension Plan.

8.03. ACQUISITION OR DISPOSITION OF PARTICIPATING COMPANY.

- (a) Subject to Section 9.01 of this Plan, in the event the Company sells, spins off, or otherwise disposes of an Affiliated Corporation, or disposes of all or substantially all of the assets of an Affiliated Corporation such that one or more Participants terminate employment for the purposes of accepting employment with the purchaser of such stock or assets, any person employed by such Affiliated Corporation who ceases to be an employee of the Company or an Affiliated Corporation as a result of the sale, spin-off, or disposition shall be deemed to have terminated his or her employment with a Participating Company for all relevant purposes under this Plan.
- (b) Notwithstanding the foregoing provisions of this Section 8.03, and subject to Section 9.01 of this Plan, if the sale, spin-off, or other disposition of the stock or assets of an Affiliated Corporation is to a Successor Plan Sponsor with the effect that the responsibility for the payment of benefits under this Plan is assumed by the Successor Plan Sponsor, the Successor Plan Sponsor shall be solely liable for the payment of the pension and

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death benefits described in this Plan to affected Participants, and the entitlement of any affected Participant or his or her surviving lawful spouse or beneficiary to benefits under this Plan shall terminate. Any Participant affected by this Section 8.03(b) shall not be considered to have terminated his or her employment with the Company or a Participating Company for any purpose under this Plan.

- (c) In the event that the Company acquires through spin-off, purchase, merger or otherwise, the stock or assets a corporation or business unit that becomes a Participating Company with the result that certain of the acquired entity employees become Transition Participants, this Plan shall become solely responsible for the benefits payable to the Transition Participants pursuant to the terms of the agreement or agreements referred to in Section 2.24.

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ARTICLE 9
GENERAL PROVISIONS

9.01. BINDING EFFECT.

The Plan shall be binding upon and inure to the benefit of each Participating Company and its successors and assigns, and each Participant, employee, his or her successors, assigns, designees, spouse, and estate. The Plan shall also be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company, but nothing in the Plan shall preclude the Company from merging or consolidating into or with, or transferring all or substantially all of its assets to, another corporation which assumes the Plan and all obligations of the Company hereunder. The Company agrees that it will make appropriate provision for the preservation of the rights of Participants, employees and surviving lawful spouses under the Plan in any agreement or plan or reorganization into which it may enter to effect any merger, consolidation, reorganization or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets and assumption that results in a Participant continuing to be employed by the Company or an Affiliated Corporation, the term "Participating Company" shall refer to such other corporation and the Plan shall continue in full force and effect as to that Participant and his or her lawful spouse or other beneficiary.

9.02. FIDUCIARY RELATIONSHIP.

Nothing contained in the Plan, and no action taken pursuant to the provisions of the Plan, shall create or be construed to create a trust or contract of any kind, or a fiduciary relationship between or among the Company, any other Participating Company, any Affiliated Corporation, the Board, the Administrator, the Committee, any Participant, employee, any surviving lawful spouse or any other person.

9.03. NO GUARANTEE OF EMPLOYMENT.

Neither the Plan nor any action taken hereunder shall be construed as (i) a contract of employment or deemed to give any employee the right to be retained in the employment of a Participating Company, the right to any level of compensation, or the right to future participation in the Plan; or (ii) affecting the right of the Participating Company to discharge or dismiss any employee at any time.

9.04. TAX WITHHOLDING.

The Company shall withhold all federal, state, local or other taxes required by law to be withheld from payments or accruals under the Plan.

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9.05. ASSIGNMENT OF BENEFITS.

The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, sold, transferred, assigned, pledged, executed upon, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including without limitation, any judgment or claim for alimony, support or separate maintenance pursuant to a domestic relations order within the meaning of Section 206(d)(3) of ERISA and claims in bankruptcy proceedings. Any such attempted disposition shall be null and void.

9.06. FACILITY OF PAYMENT.

If the Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Administrator so directs the Company, be paid to the same person or institution that the benefits with respect to such person are paid under the Pension Plan if applicable, or to the Participant's surviving lawful spouse, a child, a relative, an institution maintaining or having custody of such person, or to any other person deemed by the Administrator to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be in complete discharge of the liability of the Company, the Board, the Committee, the Administrator, and the Participating Company therefor. If any payment to which a Participant or beneficiary is entitled under this Plan is unclaimed or otherwise not subject to payment to the person or persons so entitled, such amounts representing such payment or payments shall be forfeited after a period of two years from the date the first such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

9.07. SEVERABILITY.

If any section, clause, phrase, provision or portion of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of this Plan and shall not affect the application of any section, clause, provision, or portion hereof to other persons or circumstances.

9.08. EFFECTIVE DATE.

This Plan shall be effective for Participants actively employed on or after October 1, 1996.

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9.09. PLAN YEAR.

For purposes of administering the Plan, the plan year shall begin on January 1 and end on December 31, provided, however, that the first Plan Year shall begin on October 1, 1996 and end on December 31, 1996.

9.10. HEADINGS.

The captions of the preceding sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provision of the Plan.

9.11. GOVERNING LAW.

To the extent such laws are not preempted by the laws of the United States of America, the Plan shall be governed by the laws of the State of New Jersey, except as to its principles of conflict of laws.

9.12. FORFEITURE OF BENEFITS.

Except as provided in this SECTION 9.12 and SECTION 3.02, benefits previously awarded may not be canceled and, upon attaining the right under the Plan for an immediate service benefit or deferred benefit or for an automatic survivor annuity, such right shall be nonforfeitable. Notwithstanding any eligibility or entitlement to benefits of an individual arising or conferred under any other provision or paragraph of this Plan, all benefits for which a Participant would otherwise be eligible hereunder may be forfeited, at the discretion of the Board or

the Committee, if an individual without the Company's consent establishes a relationship with a competitor of the Company or engages in activity in conflict with or adverse to the interests of the Company under the standards of the Company's Non-Competition Guideline and as determined by the Board or the Committee in its sole discretion.

9.13. OPTION DURING DISABILITY.

If an employee who has left the service of a Participating Company has elected to continue receiving disability benefits which he or she had been receiving prior to his or her termination and to defer receiving pension payments under the Pension Plan to which he or she is eligible, benefits under the Plan shall be deferred until such time as the employee begins to receive payments under the Pension Plan.

9.14. SPECIAL CLASSIFICATION.

For purposes of the Plan, the determination of those causes of death not classified as due to accident shall be accomplished in the same manner as set forth in the Pension Plan.

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9.15. CLAIMS RELEASE.

In case of accident resulting in the death of a participant which entitles his or her beneficiaries or his or her annuitant to death benefits under the Plan, such beneficiaries or annuitant shall, prior to the payment of any such benefits, sign a release, releasing the Company or other Participating Companies, as applicable, from all claims and demands which the deceased had and which his or her beneficiaries or his or her annuitant may have against them, otherwise than under the Plan, on account of such accident. If any persons other than the beneficiaries under this Plan might legally assert claims against a Participating Company on account of the death of the individual, no part of the death benefit under the Plan shall be due or payable until there have also been delivered to the Committee or the Administrator, as applicable, good and sufficient releases of all claims, arising from or growing out of the death of the individual, which such other persons might legally assert against any Participating Company. The Committee or the Administrator, as applicable, in its discretion, may require that the releases described above shall release an other company connected with the accident, including the Company or any other Participating Company, as applicable. This requirement of a release or releases shall not apply in the case of Survivor Annuities as described in SECTION 4.02(D).

9.16. DAMAGE CLAIMS OR SUITS.

Should a claim other than under the Plan be presented or suit brought against the Company or any Participating Company for damages on account of death of a Participant, nothing shall be payable under the Plan on account of such death except as provided in SECTION 9.17; provided, however, that the Committee or the Administrator, as applicable, may, in its discretion and upon such terms as it may prescribe, waive this provision if such claim be withdrawn or if such suit be discontinued; and provided further that this provision shall not preclude the payment of Survivor Annuities as described in SECTION 4.02(D).

9.17. JUDGMENT OR SETTLEMENT.

In case any judgment is recovered against any Participating Company or any settlement is made of any claim or suit on account of the death of a Participant, and the amount paid to the beneficiaries who would have received benefits under the Plan is less than what would otherwise have been payable under the Plan, the difference between the two amounts may, in the discretion of the Committee or the Administrator, as applicable, be distributed to such beneficiaries.

9.18. PAYMENT UNDER LAW.

In the case of any benefit (which the Committee or the Administrator, as applicable, shall determine to be of the same general character as a payment provided by the Plan) that is payable to any Participant, to his or her beneficiaries, his or her estate or his or her annuitant under any law now in force

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or hereafter enacted, only the excess, if any, of the amount prescribed in the Plan above the amount of such payment prescribed by law shall be payable under the Plan; provided, however, that no benefit payable under the Plan shall be reduced by reason of any governmental benefit or pension payable on account of military service or by reason of any benefit which the recipient would be entitled to receive under the Social Security Act or Railroad Retirement Act. In those cases where, because of differences in the beneficiaries or in the time or methods of payment or otherwise, the determination of any such excess is not ascertainable by mere comparison but adjustments are necessary, the Committee or the Administrator, as applicable, shall, in its discretion, determine whether or not in fact any such excess exists and make the adjustments necessary to carry out in a fair and equitable manner the spirit of the provision for the payment of any such excess. Further, in determining whether or not there is an excess, to the extent any payments under any law are considered in determining whether there is any excess payable to an employee under any other comparable plan sponsored by the Company, the amount of such payments under law shall not be considered under this Plan.

9.19. ENTIRE PLAN.

This written Plan document is the final and exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in ARTICLE 7. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to SECTION 8.02.

IN WITNESS WHEREOF, the Company has caused this Plan to be effective on October 1, 1996, and to be executed on this ____ day of _____, 1996.

For Lucent Technologies Inc.

By: _____
Curtis R. Artis
Senior Vice President, Human Resources

Attest: _____
Pamela F. Kraven
Vice President - Law
Assistant Secretary

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APPENDIX A

SECTION 4.02 (C) ALTERNATE MINIMUM FORMULA - TABLE OF FACTORS

<TABLE>
<CAPTION>

SERVICE <S>	AGE									
	50 or less	51	52	53	54	55	56	57	58	59
20 or less	1.33	1.33	1.33	1.36	1.43	1.47	1.43	1.38	1.33	1.28
21	1.38	1.32	1.32	1.35	1.42	1.46	1.42	1.37	1.32	1.27
22	1.42	1.37	1.31	1.34	1.41	1.45	1.41	1.36	1.30	1.26
23	1.47	1.41	1.36	1.33	1.40	1.44	1.40	1.35	1.29	1.25
24	1.52	1.46	1.40	1.39	1.39	1.43	1.39	1.34	1.29	1.24
25	1.58	1.51	1.45	1.43	1.45	1.42	1.38	1.33	1.28	1.23
26	1.57	1.50	1.44	1.42	1.44	1.41	1.37	1.32	1.27	1.22
27	1.57	1.49	1.43	1.42	1.43	1.40	1.36	1.31	1.26	1.21
28	1.56	1.48	1.42	1.41	1.43	1.39	1.36	1.31	1.25	1.21
29	1.55	1.48	1.42	1.40	1.42	1.39	1.35	1.30	1.25	1.20
30	1.38	1.36	1.33	1.35	1.39	1.38	1.34	1.29	1.24	1.19
31	1.38	1.35	1.33	1.34	1.39	1.37	1.34	1.29	1.24	1.19

<TABLE>
<CAPTION>

SERVICE <C>	60	61	62	63	64	65
	20 or less	1.25	1.20	1.15	1.10	1.05
21	1.24	1.19	1.14	1.09	1.05	1.00
22	1.23	1.18	1.14	1.09	1.05	1.00
23	1.22	1.17	1.13	1.09	1.04	1.00
24	1.21	1.17	1.12	1.08	1.04	1.00
25	1.20	1.16	1.12	1.08	1.04	1.00
26	1.19	1.15	1.11	1.08	1.04	1.00
27	1.18	1.15	1.11	1.07	1.04	1.00
28	1.18	1.14	1.11	1.07	1.04	1.00
29	1.17	1.14	1.10	1.07	1.03	1.00
30	1.17	1.13	1.10	1.07	1.03	1.00
31	1.16	1.13	1.10	1.06	1.03	1.00

</TABLE>

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<TABLE>

<S>	<C>									
32	1.37	1.35	1.32	1.34	1.38	1.37	1.33	1.28	1.23	1.18

33	1.37	1.34	1.32	1.34	1.38	1.36	1.33	1.28	1.23	1.18
34	1.36	1.34	1/31	1.33	1.37	1.36	1.32	1.27	1.22	1.17
35 or more	1.36	1.33	1.31	1.33	1.37	1.35	1.32	1.27	1.22	1.17

<C>	<C>	<C>	<C>	<C>	<C>	<C>
32	1.16	1.12	1.09	1.06	1.03	1.00
33	1.15	1.12	1.09	1.06	1.03	1.00
34	1.15	1.12	1.09	1.06	1.03	1.00
35 or more	1.14	1.11	1.09	1.06	1.03	1.00

</TABLE>

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APPENDIX B

SECTION 4.02 (b) ALTERNATE FORMULA

EARLY RETIREMENT FACTORS BASED UPON ATTAINED YEARS AND MONTHS OF AGE

ATTAINED AGE

<TABLE> <CAPTION>													
Years	Months												
-----	-----												
	0	1	2	3	4	5	6	7	8	9	10	11	
	-	-	-	-	-	-	-	-	-	-	--	--	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
50	.29	.29	.30	.30	.31	.31	.32	.32	.32	.33	.33	.34	
--													
51	.34	.34	.35	.35	.36	.36	.37	.37	.37	.38	.38	.39	
--													
52	.39	.40	.40	.41	.42	.42	.43	.44	.44	.45	.46	.46	
--													
53	.47	.48	.48	.49	.50	.50	.51	.52	.52	.53	.54	.54	
--													
54	.55	.56	.57	.57	.58	.59	.60	.60	.61	.62	.63	.63	
--													
55	.64	.64	.66	.66	.66	.66	.67	.67	.67	.67	.69	.69	
--													
56	.69	.69	.71	.71	.71	.72	.72	.72	.74	.74	.74	.76	
--													
57	.76	.76	.78	.78	.78	.79	.79	.79	.81	.81	.81	.83	
--													
58	.83	.83	.84	.84	.86	.86	.88	.88	.88	.90	.90	.91	
--													

59 .91 .91 .93 .93 .95 .95 .97 .97 .97 .98 .98 1.00
--

60 1.00
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OFFICERS LONG TERM
DISABILITY AND SURVIVOR PROTECTION PLAN

As effective October 1, 1996

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LUCENT TECHNOLOGIES INC.
OFFICERS LONG TERM
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ARTICLE 1.
PURPOSE

The Plan is a successor to the AT&T Senior Management Long Term Disability and Survivor Protection Plan in effect as of September 30, 1996, with respect to Transferred Individuals (as defined in Article 2 of the Employee Benefits Agreement dated February 1, 1996, and is amended and restated effective March 29, 1996). The Plan assumes and is solely responsible for all liabilities as of September 30, 1996, relating to Transferred Individuals under the Plan. Accordingly, the Plan shall recognize such service and compensation as of September 30, 1996, with respect to Transferred Individuals as would be recognized by the AT&T Senior Management Long Term Disability and Survivor Protection Plan in effect as of September 30, 1996. To the extent that the Plan refers to dates, events, agreements, elections, or designations before October 1, 1996, relating to Transferred Individuals, such dates, events, agreements, elections and designations shall be recognized as if Lucent Technologies Inc. and the Plan were in existence at the applicable time. For Transferred Individuals who terminated employment before October 1, 1996, the provisions of the AT&T Senior Management Long Term Disability and Survivor Protection Plan in effect at termination of the Transferred Individual's employment shall be deemed to be incorporated in this Plan and shall govern.

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ARTICLE 2.
DEFINITIONS

For the purpose of the Plan, the following terms shall have the meanings set forth in this ARTICLE 1.

- 2.01. "ADMINISTRATOR" shall mean the person identified as the Pension Plan Administrator under the Pension Plan or such other person or entity designated by the Company.
- 2.02. "AFFILIATED CORPORATION" shall mean any corporation or other entity of which 50 percent or more of the voting stock is owned directly or indirectly by The Company.
- 2.03. "AT&T" shall mean AT&T Corp. (formerly American Telephone and Telegraph Company), a New York Corporation, or its successors.
- 2.04. "ANNUAL BASIC PAY" shall mean the Participant's annual base salary rate on the last day the Participant was on the active payroll plus, with respect to a Participant whose last day on the active payroll occurred after October 1, 1996, an amount determined with reference to the Short

Term Plan, but excluding all differentials regarded as temporary or extra payments and all awards and distributions made under the Long Term Plan. For purposes of determining the Disability Allowance under ARTICLE 3, the amount determined with reference to the Short Term Plan shall be the last Short Term Award granted to the Participant prior to the last day the Participant was on the active payroll. For purposes of determining the Minimum Retirement Benefit under ARTICLE 4 and the Surviving Spouse Benefit under ARTICLE 5, the amount determined with reference to the Short Term Plan shall be the greater of (1) the Short Term Award for the last full calendar year of service prior to the earlier of the Participant's retirement, termination or death, or (2) the Short Term Award granted with respect to any later partial calendar year of service.

- 2.05. "BOARD" shall mean the Board of Directors of Lucent Technologies Inc.
- 2.06. "COMMITTEE" shall mean the Employee Benefits Committee appointed by the Company to administer the Pension Plan.
- 2.07. "COMPANY" shall mean Lucent Technologies Inc. or its successors.
- 2.08. "DISABILITY BENEFIT PLAN" shall mean a Participating Company's Sickness and Accident Disability Benefit Plan.
- 2.09. "INSURED ANNUITANT'S PLAN" shall mean the Senior Management Post-Retirement Insured Annuitant's Benefit Plan established as part of the AT&T Corp. Senior Management Life Insurance Program.

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- 2.10. "LONG TERM PLAN" shall mean the Lucent Technologies Inc. Long Term Incentive Program or predecessor long term incentive plans.
- 2.11. (a) "PARTICIPANT" for purposes of the Disability Allowance under ARTICLE 3, shall mean an employee holding a position evaluated or classified as above "Executive" or equivalent, except that no employee who has been notified in writing that the assignment to such position will be temporary shall be considered as a Participant for any purpose under this Plan.
- (b) "PARTICIPANT" for purposes of the Minimum Retirement Benefit under ARTICLE 4, shall mean an employee described in SECTION 2.11 (a) above, or a former employee of a Participating Company who was a Participant under SECTION 2.11 (A) on the last day of employment, if such former employee is retired on a service pension under the Pension Plan.
- (c) "PARTICIPANT" for purposes of the Surviving Spouse Benefit under

ARTICLE 5, shall mean an employee described in SECTION 2.11 (a) above, or a former employee of a Participating Company who was a Participant under SECTION 2.11 (a) on the last day of employment, if such former employee (1) is eligible to receive a Disability Allowance under ARTICLE 3, or (2) is eligible to receive a Minimum Retirement Benefit under ARTICLE 4.

(d) "PARTICIPANT" for purposes of the Death Benefit under ARTICLE 6, shall mean a former employee of a Participating Company who was a Participant under SECTION 2.11 (a) above on the last day of employment, if such former employee is eligible to receive a Disability Allowance under ARTICLE 3, or is eligible to receive a Minimum Retirement Benefit under ARTICLE 4.

(e) For purposes of SECTIONS 2.11 (b), 2.11 (c), AND 2.11 (d) above, a former employee shall be considered to be eligible to receive a Disability Allowance under ARTICLE 3 or a Minimum Retirement Benefit under ARTICLE 4 if he has met the conditions specified in ARTICLE 3 or in ARTICLE 4, even though the receipt of other benefits by such former employee precludes his or her receipt of any benefits under ARTICLE 3 or under ARTICLE 4.

2.12. "PARTICIPATING COMPANY" shall mean the Company and any Affiliated Corporation that has elected, with the approval of the Committee as required by SECTION 9.01, to participate in the Plan.

2.13. "PENSION PLAN" shall mean the Lucent Technologies Inc. Management Pension Plan or predecessor pension plans.

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2.14. "PLAN" shall mean this Lucent Technologies Inc. Officers Long Term Disability and Survivor Protection Plan.

2.15. "PREDECESSOR PLAN SPONSOR" means AT&T and any other corporation or entity that enters into an agreement or agreements providing for the assumption of liabilities by this Plan comparable to the Management Interchange Agreement dated as of April 8, 1996, and the Employee Benefits Agreement dated as of March 29, 1996, between AT&T and the Company.

2.16. "SHORT TERM AWARD" means the actual amount awarded (including any amounts deferred pursuant to the Lucent Technologies Inc. Senior Management Incentive Award Deferral Plan) annually to a Participant pursuant to the Lucent Technologies Inc. Short Term Incentive Plan or predecessor short term incentive plans. Short Term Awards shall, for purposes of this Plan, be considered to be awarded on the last day of

the performance period with respect to which they are earned.

- 2.17. "SHORT TERM PLAN" shall mean the Lucent Technologies Inc. Short Term Incentive Plan or predecessor short term incentive plans.
- 2.18. "SUCCESSOR PLAN SPONSOR" shall mean Lucent Technologies Inc. and any other corporation or entity that enters into an agreement or agreements providing for the assumption of liabilities arising under this Plan comparable to the Management Interchange Agreement dated as of April 8, 1996, and the Employee Benefits Agreement dated as of March 29, 1996, between AT&T and Lucent Technologies Inc.
- 2.19. "TERM OF EMPLOYMENT" shall have the same meaning as the meaning assigned to such expression in the Pension Plan.
- 2.20. "TRANSITION PARTICIPANT" shall mean a Participant or a person eligible to receive a Surviving Spouse Benefit or a Death Benefit as to whom the responsibility and liability for the payment of benefits accrued or payable under a Plan or Plans of a Predecessor Plan Sponsor has been assumed by the Company and are payable under this Plan.

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ARTICLE 3.
DISABILITY ALLOWANCE

- 3.01. (a) A Participant shall be considered to be "disabled" at any time during the first fifty-two week period following the onset of a physical or mental impairment, if such impairment prevents the Participant from meeting the performance requirements of the position held immediately preceding the onset of the physical or mental impairment.
- (b) A Participant shall be considered to be "disabled" after the first fifty-two week period following the onset of a physical or mental impairment if such impairment prevents the Participant from meeting the performance requirements of (1) the position held immediately preceding the onset of the physical or mental impairment, (2) a similar position, or (3) any appropriate position with the Company or any other Participating Company which the Participant would otherwise be capable of performing by reason of the Participant's background and experience.
- (c) The Administrator shall make the determination of whether a Participant is disabled within the meaning of paragraph (a) above; the Committee shall make such determination with respect to paragraph (b) above.

- 3.02. A Participant who is disabled during a period described in SECTION 3.01(a) shall be eligible to receive a monthly disability allowance equal to 100 percent of the Participant's monthly base salary rate on the last day the Participant was on the active payroll, reduced by any amounts described in SECTION 3.05(a) which are attributable to the period for which benefits are provided under this SECTION 3.02.
- 3.03. A Participant who is disabled during a period described in SECTION 3.01(b) shall, prior to his or her sixty-fifth birthday, be eligible to receive a monthly disability allowance equal to sixty percent of the Participant's monthly base salary rate on the last day the Participant was on the active payroll, reduced by any amounts described in SECTION 3.05(b) which are attributable to the period for which benefits are provided under this SECTION 3.03.
- 3.04. A Participant who is disabled during a period described in SECTION 3.01(b) shall, commencing with his or her sixty-fifth birthday or the start of the period described in SECTION 3.01 (b), if later, be eligible to receive a monthly disability allowance equal to the greater of:

- (i) one and one-quarter percent of the Participant's annual basic pay, as defined in SECTION 2.04, on the last day the Participant was on the active payroll, or

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- (ii) if the Participant's Term of Employment has been five years or more, ninety percent of the sum of (a) the monthly pension the Participant would have been entitled to receive commencing at age sixty-five under the Pension Plan (as in effect on the last day the Participant was on the active payroll, but ignoring any minimum service requirements for eligibility to a pension), if the period after the last day the Participant was on the active payroll and prior to the Participant's sixty-fifth birthday had been included in the Participant's term of employment as of the end of the applicable averaging period under the Pension Plan, plus (b) the monthly pension the Participant would have been entitled to receive commencing at age 65 under the Lucent Technologies Inc. Non-Qualified Pension Plan (as in effect on the last day the Participant was on the active payroll, but ignoring any minimum service requirements for eligibility to a pension), if the

period after the last day the Participant was on the active payroll and prior to the Participant's sixty-fifth birthday had been included in the Participant's Term of Employment as of the end of the applicable averaging period under the Lucent Non-Qualified Pension Plan, reduced by any amounts described in SECTION 3.05(C) that are attributable to the period for which benefits are provided under this paragraph.

3.05. (a) The Disability Allowance determined for any period under Section 3.02 shall be reduced by the sum of the following benefits received by the Participant which are attributable to the period for which such disability allowance is provided: a service pension, deferred vested pension, or disability pension under the Pension Plan, a pension under the Lucent Technologies Inc. Excess Benefit and Compensation Plan, a pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, a pension under the Lucent Technologies Inc. Mid-Career Pension Plan, an accident disability benefit or sickness disability benefit under the Disability Benefit Plan, any Workers' Compensation Benefit, plus any comparable benefits provided under the plans or programs of any Successor Plan Sponsor and any other benefit payments required by law on account of the Participant's disability. However, no reduction shall be made on account of any pension under the Pension Plan at a rate greater than the rate of such pension on the date the Participant first received such pension after his or her disability and no reduction shall be made on account of any pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, the Lucent Technologies Inc. Excess Benefit and Compensation Plan, or the Lucent Technologies Inc. Mid-Career Pension Plan at a rate greater than the rate of such pension, including adjustments if any to reflect post-retirement incentive awards to the Participant under the Short Term Plan, as of the first date the Participant was entitled to receive such pension after his or her disability.

(b) The Disability Allowance determined for any period under SECTION 3.03 shall be reduced by the sum of the following benefits received by the Participant which are attributable to the period for which such disability allowance is provided: a service pension, deferred vested pension or disability pension under the Pension Plan, a pension

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under the Lucent Technologies Inc. Excess Benefit and Compensation Plan, a pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, a pension under the Lucent Technologies Inc. Mid-Career

Pension Plan, an accident disability benefit under the Disability Benefit Plan, any other retirement income payments from the Participant's Participating Company or any predecessor in interest to the Company, any Workers' Compensation Benefit, plus any Social Security Insurance Benefit. However, no reduction shall be made on account of any pension under the Pension Plan at a rate greater than the rate of such pension on the date the Participant first received such pension after his or her disability, and no reduction shall be made on account of any pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, the Lucent Technologies Inc. Excess Benefit and Compensation Plan, or under the Lucent Technologies Inc. Mid-Career Pension Plan at a rate greater than the rate of such pension, including adjustments if any to reflect post-retirement incentive awards to the Participant under the Short Term Plan, as of first date the Participant was entitled to receive such pension after his or her disability, and no reduction shall be made on account of any Social Security Benefit at a rate greater than the rate which the Participant would have first been eligible to receive after his or her disability and as if no other members of his or her family were eligible for any Social Security Benefit.

Furthermore, the Board of Directors of the Company, in its discretion, may reduce the disability allowance by the amount of outside compensation or earnings of the Participant for work performed by the Participant during the period for which such disability allowance is provided.

(c) The disability allowance determined for any period under SECTION 3.04 shall be reduced by the sum of the following benefits received by the Participant which are attributable to the period for which such disability allowance is provided: a service pension, deferred vested pension or disability pension under the Pension Plan, a pension under the Lucent Technologies Inc. Excess Benefit and Compensation Plan, a pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, a pension under the Lucent Technologies Inc. Mid-Career Pension Plan, an accident disability benefit under the Disability Benefit Plan, any other retirement income payments from the Participant's Participating Company or any Successor Plan Sponsor, plus any Workers' Compensation Benefit. However, no reduction shall be made on account of any pension under the Pension Plan at a rate greater than the rate of such pension on the date the Participant first received such pension after his or her disability, and no reduction shall be made on account of any pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, the Lucent Technologies Inc. Excess Benefit and Compensation Plan, or under the Lucent Technologies Inc. Mid-Career Pension Plan at a rate greater than the rate of such pension, including adjustments if any to reflect post-retirement incentive awards to the Participant under the Short Term Plan, as of the first date the Participant was entitled to receive such pension after his or her disability.

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3.06. For purposes of Sections 3.01(a) and 3.01(b), the measurement of time following the onset of a physical or mental impairment shall coincide with the measurement of time used to calculate periods of Sickness and Accident Disability Benefits under Sections 4 and 5 of the Disability Benefit Plan. Successive periods of physical or mental impairment shall be counted together in computing the periods during which the Participant shall be entitled to the benefits provided under Sections 3.02 and 3.03, except that any disability absence after the Participant has been continuously engaged in the performance of duty for thirteen weeks shall be considered to commence a new period of physical or mental impairment under Section 3.01 (a), so that such Participant shall be entitled during such new period to the benefits provided under Section 3.02.

3.07. With respect to a Participant not subject to mandatory retirement at age 65 under the Age Discrimination in Employment Act (29 U.S. C.631), the period of eligibility for the disability allowance provided in SECTION 3.03 and the period of eligibility for the disability allowance provided in SECTION 3.04, shall be the period described in SECTION 3.03, and the period described in SECTION 3.04, respectively, or such other period as is required under the Age Discrimination in Employment Act or under any applicable governing regulations or interpretations thereunder.

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ARTICLE 4.
MINIMUM RETIREMENT BENEFIT

4.01. A Participant described in SECTION 2.10(a) whose term of employment has been five years or more and is not disabled, who terminates employment on or after his or her sixty-second birthday, or a Participant described in SECTION 2.10(b) who is retired on a service pension under the Pension Plan, shall be eligible to receive a monthly minimum retirement benefit equal to one and one-quarter percent of Participant's annual basic pay, as defined in SECTION 2.04, on the last day the Participant was on the active payroll reduced by the sum of the following benefits received by the Participant which are attributable to the period for which benefits are provided under this ARTICLE 4: a service pension or deferred vested pension under the Pension Plan, a pension under the Lucent Excess Benefit and Compensation Plan, a

pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, a pension under the Lucent Technologies Inc. Mid-Career Pension Plan, and by any other retirement income payments received by the Participant from his or her Participating Company or from a Successor or Predecessor Plan Sponsor. However, no reduction shall be made on account of any pension under the Pension Plan at a rate greater than the rate of such pension on the date the Participant first received such pension after his or her retirement or other termination of employment, and no reduction shall be made on account of any pension under the Lucent Technologies Inc. Non-Qualified Pension Plan, the Lucent Technologies Inc. Excess Benefit and Compensation Plan, or under the Lucent Technologies Inc. Mid-Career Pension Plan at a rate greater than the rate of such pension, including adjustments if any to reflect post-retirement incentive awards to the Participant under the Short Term Plan, as of first date the Participant was entitled to receive such pension after his or her retirement or other termination of employment.

- 4.02. If an amendment to the Pension Plan effective on or after October 1, 1996, provides for an increase in the service pensions of previously retired employees, then a Participant's minimum retirement benefit shall be increased pursuant to the same terms and conditions as are set forth in such Pension Plan amendment.

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ARTICLE 5.
SURVIVING SPOUSE BENEFIT

- 5.01. In the event of the death of a Participant, who is described in SECTION 2.10(c), the surviving lawful spouse of such Participant shall be eligible to receive a monthly benefit equal to one and one-quarter percent of the Participant's annual basic pay, as defined in SECTION 2.04, on the last day the Participant was on the active payroll prior to his or her death reduced by the sum of the following benefits received by the Participant's surviving lawful spouse on account of the death of the Participant and which are attributable to the period for which benefits are provided under this ARTICLE 5: an annuitant's pension under the Pension Plan, an annuity under the Insured Annuitant's Plan, an annuitant's pension under the Lucent Technologies Inc. Excess Benefit and Compensation Plan, an annuitant's pension under the Lucent Technologies Inc. Non-Qualified Pension Plan and any other lifetime payments to such surviving lawful spouse from the Participant's Participating Company or from any Successor Plan Sponsor. However, no reduction shall be made on account of an annuitant's pension under the Pension Plan, or on account of an annuitant's pension

under the Lucent Technologies Inc. Non-Qualified Pension Plan or on account of an annuitant's pension under the Lucent Technologies Inc. Excess Benefit and Compensation Plan, or an account of any annuity under the Insured Annuitant's Plan at a rate greater than (1) the rate of such pension or annuity on the date such pension or annuity was first payable in the case of the death of a Participant who is on the active payroll or (2) the rate of such pension or annuity on the date such pension or annuity first would have been payable had the Participant died on the day after the last day the Participant was on the active payroll in the case of the death of a Participant who is not on the active payroll.

- 5.02. Notwithstanding any provision of SECTION 5.01 to the contrary, the surviving lawful spouse of a Participant shall not be eligible to receive benefits under this ARTICLE 5 if, prior to the Participant's death, the Participant could have elected under the Pension Plan or under any predecessor pension plan maintained by a Participating Company to receive a reduced pension for his or her life in order to provide thereafter an annuity for the life of his or her spouse, but the Participant declined to make such an election.
- 5.03. If an amendment to the Pension Plan effective on or after October 1, 1996, provides for an increase in the survivor annuities payable under said Plan, then the Surviving Spouse Benefit payable under SECTION 5.01 above shall be increased pursuant to the same terms and conditions as are set forth in such Pension Plan amendment, except that no such increase shall apply to the Surviving Spouse Benefit related to a deceased Participant who had not terminated employment or died prior to the effective date of such amendment.

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ARTICLE 6.
DEATH BENEFITS

- 6.01. Upon the death of a Participant described in SECTION 2.10(d) whose last day on the active payroll occurred on or after January 1, 1987, and who has not retired on a service pension or a disability pension under the Pension Plan, a death benefit in the amount of the Participant's annual base salary rate in effect on the last day said Participant was on the active payroll shall be paid to one or more of the beneficiaries listed in SECTION 6.02 below as determined by the Committee, provided, however, that such death benefit shall be reduced by the sum of any death benefit paid under Section 5 of the Pension Plan on account of the Participant's death.
- 6.02. The persons who may be the beneficiaries of the death benefit described

in SECTION 6.01 are the Participant's legal spouse if living with him at the time of the Participant's death, his or her unmarried child or children under age 23 (or over that age if physically or mentally incapable of self-support) who were being supported in whole or in part by the deceased at his or her death, or a dependent parent or parents living with the deceased at the time of his or her death or in a separate household in the vicinity of the deceased and provided by the Participant.

- 6.03. If the Participant is not survived by any person listed in SECTION 6.02, a death benefit up to the maximum amount shown in SECTION 6.01 above may be payable, at the discretion of the Committee, to any other dependent relative receiving or entitled to receive support from the deceased; if no such dependent relative survives the deceased, no death benefit will be payable under this Plan.

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ARTICLE 7.
SOURCE OF PAYMENT

- 7.01. SOURCE OF PAYMENTS.

The Company may establish a trust to hold assets to be used to make benefit payments under the terms of this Plan, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. Funds invested hereunder shall, for purposes of this Plan, be considered to be part of the general assets of the Participating Company which invested the funds, and no Participant, beneficiary or lawful spouse shall have any interest or right in such funds. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges and expenses relating thereto. To the extent that the funds held in the trust are insufficient to pay such benefits, costs, charges and expenses, the Company or the responsible Participating Company shall pay such benefits, costs, charges and expenses from its general assets. In addition, the Company may, in its sole discretion, direct that payments required under this Plan to any Participant or surviving lawful spouse be made through the purchase and distribution of one or more nontransferable annuity contracts or cause the trustee of the trust to purchase and distribute such annuity contracts. Any such purchase and distribution of an annuity contract shall be a full and complete discharge of the Plan's, the Company's and the Participating Companies' liability for payments assumed by the issuer of the annuity contract. Further, the Senior Vice President, Human Resources, may determine, in his sole discretion, to pay

additional sums to any Senior Manager, from the Company's general assets or from the trust, if any, to reimburse the Senior Manager for additional federal and state income taxes estimated to be incurred by reason of the distribution of any such annuity contracts. The Senior Vice President, Human Resources shall establish a methodology or methodologies for determining the amount of such additional sums. The methodology or methodologies selected shall be those that the Senior Vice President, Human Resources determines, in his sole discretion, to be the most effective and administratively feasible for the purpose of producing after tax periodic benefit payments that approximate the after tax periodic benefit payments that would have been received by [Participants] in the absence of the distribution of the annuity contract.

7.02. UNFUNDED STATUS.

The Plan at all times shall be entirely unfunded for purposes of the Internal Revenue Code of 1986 and ERISA, and, except as provided in SECTION 7.01, no provision shall at any time be made with respect to segregating any assets of a Participating Company for payment of any benefits hereunder. Funds invested hereunder shall continue for all purposes to be part of the general assets of the Participating Company which invested the funds. The Plan constitutes a mere promise by the Participating Company to make payments, if any, in the future. No Participant, spouse, beneficiary or any other person shall have any interest in any particular assets of a Participating Company by reason of

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the right to receive a benefit under the Plan and to the extent the Participant, surviving lawful spouse, beneficiary or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of a Participating Company.

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ARTICLE 8.
ADMINISTRATION OF THE PLAN

8.01. ADMINISTRATION AND AUTHORITIES.

The Plan shall be administered by the Company and it shall have full discretionary authority to manage and control the operation and administration of the Plan, including the power to interpret provisions of the Plan, make determinations of fact, promulgate rules and regulations, determine benefit eligibility of individual and classes of Participants, delegate its powers and duties hereunder to the Committee, the Administrator or others and take such other action as it shall find necessary and appropriate to implement the provisions of the Plan. The Committee and the Administrator may retain attorneys, consultants, accountants or other persons (who may be employees of the Company or an Affiliated Corporation) to render advice and assistance and may delegate any of the authorities conferred on it to such persons as it shall determine to be appropriate to effect the discharge of its duties hereunder. The Company, the Predecessor Plan Sponsor, the Affiliated Corporations and any of their officers and employees shall be entitled to rely upon the advice, opinions, and determinations of any such persons. Any exercise of the authorities set forth in this Section, whether by the Company, the Committee, the Administrator, or their Delegate shall be final and binding upon the Company, its Affiliated Corporations, their officers, directors and affected Participants and beneficiaries.

8.02. COMMITTEE.

The Company has delegated to the Committee authority to make the final determination to grant or deny claims for benefits under the Plan with respect to Participants and to authorize disbursements according to the terms of the Plan.

8.03. INDEMNIFICATION.

No member of the Board or the Committee or the Administrator shall be personally liable by reason of any contract or other instrument executed by such individual on his or her behalf or in his or her capacity as a member of the Board, Committee or the Administrator nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Board, each member of the Committee, the Administrator and each other employee, officer, or director of the Company or any Participating Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

8.04. BENEFIT CLAIMS AND APPEALS.

(a) Benefit Claims. All claims for benefit payments under the Plan shall be submitted in writing by Participants to the person designated by the Company to make determinations as to eligibility for benefits under the Plan and such person shall notify the Participant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days in unusual cases provided that written notice of the extension is furnished to the claimant prior to the commencement of the extension. In the event the claim is denied, such notice shall (i) set forth the specific reason or reasons for denial, (ii) make reference to the pertinent Plan provisions on which the denial is based, (iii) describe any additional material or information necessary before the Participant's request may be acted upon favorably, and (iv) explain the procedure for appealing the adverse determination.

(b) Benefit Appeals. A Participant whose claim for benefits has been denied may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the claimant is relying, and (iii) include copies of any other documents or materials which may support favorable consideration of the claim. The Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in unusual cases provided that written notice of the extension is furnished to the claimant prior to the commencement of the extension. The decision of the Committee shall be set forth in writing, include specific reasons for the decision, refer to pertinent Plan provisions on which the decision is based, and shall be final and binding on all persons affected thereby.

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ARTICLE 9.
ADOPTION, AMENDMENT AND TERMINATION

9.01. ADOPTION OF PLAN.

Any Affiliated Corporation that participates in the Pension Plan may, with the consent of the Committee, elect to participate in the Plan. Such Affiliated Corporation shall become a Participating Company as of the date specified by the Committee in its resolution approving the participation of the Affiliated Corporation in the Plan.

9.02. AMENDMENT AND TERMINATION.

The Company is the Sponsor of the Plan and the Board or its delegate, may from time to time amend, modify or change the Plan as set forth in this document, and the Board or its delegate (acting pursuant to the Board's delegations of authority then in effect) may terminate the Plan at any time. Plan amendments may include, but are not limited to, elimination or reduction in the level or type of benefits provided to any class or classes or Participants, surviving lawful spouses and beneficiaries). Any and all Plan amendments may be made without the consent of any employee, Participant, spouse or beneficiary. Notwithstanding the foregoing, the exercise of the power to amend, modify or terminate the Plan shall be subject to the limitations described in paragraphs (a) and (b) below.

(a) Such amendment, modification or termination shall not affect the rights of any Participant or surviving lawful spouse, without his or her consent, to any benefit under the Plan to which such Participant or surviving lawful spouse may have previously become entitled as a result of disability, death or termination of employment which occurred prior to the later of the adoption date or the effective date of such amendment or termination.

Such amendment, modification or termination shall not affect the rights of any Participant or his or her surviving lawful spouse, without his or her consent, to any future benefits payable under ARTICLE 4 or ARTICLE 5, provided that, prior to the later of the adoption date or the effective date of such amendments or termination, such Participant either (i) had satisfied the requirements for eligibility for the benefits described in ARTICLE 4, other than the termination of employment requirement, or (ii) had begun to receive a disability allowance under ARTICLE 3. For purpose of determining a spouse's benefit, it shall be assumed that a Participant who is receiving a disability allowance as of the later of the adoption date or effective date of such amendment will continue to receive said allowance until his or her death. The annual basic pay used to compute such future benefits under ARTICLE 4 or ARTICLE 5 shall be the Participant's highest annual basic pay as described in SECTION 2.04 on any day during the term of his or her employment completed prior to the later of the adoption date or the effective date of such amendments or termination as if the Participant had terminated employment on that day.

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9.03. ACQUISITION OR DISPOSITION OF PARTICIPATING COMPANY.

(a) Subject to SECTION 9.02 of this Plan, in the event the Company sells, spins off, or otherwise disposes of an Affiliated Corporation, or disposes of all or substantially all of the assets of an Affiliated Corporation such that one or more Participants terminate employment for the purposes of accepting employment with the purchaser of such stock or assets, any person employed by such Affiliated Corporation who ceases to be an employee of the Company or an Affiliated Corporation as a result of the sale, spin-off, or disposition shall be deemed to have terminated his or her employment with a Participating Company for all relevant purposes under this Plan.

(b) Notwithstanding the foregoing provisions of this SECTION 9.03, and subject to SECTION 9.02 of this Plan, if the sale, spin-off, or other disposition of the stock or assets of an Affiliated Corporation is to a Successor Plan Sponsor with the effect that the responsibility for the payment of benefits under this Plan is assumed by the Successor Plan Sponsor, the Successor Plan Sponsor shall be solely liable for the payment of the pension and death benefits described in this Plan, and the entitlement of any affected Participant or his or her surviving lawful spouse or beneficiary to benefits under this Plan shall terminate. Any Participant affected by this SECTION 9.03(b) shall not be considered to have terminated his or her employment with the Company or a Participating Company for any purpose under this Plan.

(c) In the event that the Company acquires through spin-off, purchase, merger or otherwise, the stock or assets of a corporation or business unit that becomes a Participating Company with the result that certain of the acquired entity employees become Transition Participants, this Plan shall become solely responsible for the benefits payable to the Transition Participants pursuant to the terms of the agreement or agreements referred to in SECTION 2.14.

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ARTICLE 10.
GENERAL PROVISIONS

10.01. EFFECTIVE DATE.

This Plan shall be effective for Participants actively employed on or after October 1, 1996.

10.02. ASSIGNMENT OF BENEFITS.

The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, sold, transferred, assigned, pledged, executed upon, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including without limitation, any judgment or claim for alimony, support or separate maintenance pursuant to a domestic relations order within the meaning of Section 206(d)(3) of ERISA and claims in bankruptcy proceedings. Any such attempted disposition shall be null and void.

10.03. CLAIMS RELEASE.

In case of accident resulting in injury to or death of a Participant which entitles the Participant or his or her surviving lawful spouse to benefits under the Plan, the Participant or his or her surviving lawful spouse may elect to accept such benefits or to prosecute such claims at law as the Participant or the surviving lawful spouse may have against one or more Participating Companies. If an election is made to accept the benefits under the Plan, such election shall be in writing and shall release such Participating Company or such Participating Companies from all claims and demands that the Participant or his or her surviving lawful spouse may have against it, or against them, otherwise than under this Plan or under any other plan maintained by a Participating Company, on account of such accident. The right of the Participant to a disability allowance under ARTICLE 3 of the Plan shall lapse if election to accept such benefits, as above provided, is not made within sixty days after injury, or within such greater time as the Company shall fix for the making of such election.

10.04. DAMAGE CLAIMS OR SUITS.

Should a claim other than under this Plan or under any other plan maintained by a Participating Company be presented or suit brought against a Participating Company, for damages on account of injury or death of a Participant, nothing shall be payable under this Plan on account of such injury or death except as provided in SECTION 10.05, provided, however, that the Company may, in its discretion and upon such terms as it may prescribe waive this provision if such claims be withdrawn or if such suit be discontinued.

10.05. JUDGMENT OR SETTLEMENT.

In case any judgment is recovered against a Participating Company or any settlement is made of any claim or suit on account of the injury or death of a Participant, and the total amount which would otherwise have been payable under the Plan and under any other plan maintained by the Participating Company is greater than the amount paid on account of such judgment or settlement, the lesser of (a) the difference between such two amounts or (b) the amount which would otherwise have been payable under this Plan, may in the discretion of the Company, be distributed to the beneficiaries who would have received benefits under this Plan.

10.06. FORFEITURE OF BENEFITS.

All Benefits to which a Participant and his or her spouse would be otherwise eligible hereunder may be forfeited, at the discretion of the Board or of the Committee, if an individual without the Company's consent establishes a relationship with a competitor of the Company or engages in any activity in conflict with or adverse to the interests of the Company under the standards of the the Company's Non-Competition Guideline and as determined by the Board or the Committee in its sole discretion.

10.07. PAYMENT UNDER LAW.

In the case of any benefit, which the Committee shall determine to be of the same general character as a payment provided by the Plan, that is payable to any participant, to his or her beneficiaries, his or her estate or his or her annuitant under any law now in force or hereafter enacted, only the excess, if any, of the amount prescribed in the Plan above the amount of such payment prescribed by law shall be payable under the Plan; provided, however, that no benefit payable under the Plan shall be reduced by reason of any governmental benefit or pension payable on account of military service or by reason of any benefit which the recipient would be entitled to receive under the Social Security Act or Railroad Retirement Act. In those cases where, because of differences in the beneficiaries or in the time or methods of payment or otherwise, the determination of any such excess is not ascertainable by mere comparison but adjustments are necessary, the Committee or the Administrator, as applicable, shall, in its discretion, determine whether or not in fact any such excess exists and make the adjustments necessary to carry out in a fair and equitable manner the spirit of the provision for the payment of any such excess.

10.08. GOVERNING LAW.

To the extent such laws are not preempted by the laws of the United States of America, the Plan shall be governed by the laws of the State of New Jersey, except as to its principles of conflict of laws.

10.09. SEVERABILITY.

If any section, clause, phrase, provision or portion of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of this Plan and shall not affect the application of any section, clause, provision, or portion hereof to

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other persons or circumstances.

10.10. FACILITY OF PAYMENT.

If the Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Administrator so directs the Company, be paid to the same person or institution that benefit with respect to such person is paid or to be paid under the Pension Plan if applicable, or the Participant's lawful spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Administrator to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be in complete discharge of the liability of the Company, the Board, the Committee, the Administrator, and the Participating Company therefor. If any payment to which a Participant or beneficiary is entitled under this Plan is unclaimed or otherwise not subject to payment to the person or persons so entitled, such amounts representing such payment or payments shall be forfeited after a period of two years from the date the first such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

10.11. HEADINGS.

The captions of the preceding the sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provision of the Plan.

10.12. TAX WITHHOLDING.

The Company shall withhold all federal, state, local or other taxes required by law to be withheld from payments or accruals under the Plan.

10.13. FIDUCIARY RELATIONSHIP.

Nothing contained in the Plan, and no action taken pursuant to the provisions of the Plan, shall create or be construed to create a trust or contract of any kind, or a fiduciary relationship between or among The Company, any other Participating Company, any Affiliated Corporation, the Board, the Administrator, the Committee, any Participant, employee, any surviving lawful spouse or any other person.

LUCENT TECHNOLOGIES INC. OFFICERS LTD
AND SURVIVOR PROTECTION PLAN
PAGE 23

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10.14. NO GUARANTEE OF EMPLOYMENT.

Neither the Plan nor any action taken hereunder shall be construed as (i) a contract of employment or deemed to give any employee the right to be retained in the employment of a Participating Company, the right to any level of compensation, or the right to future participation in the Plan; or (ii) affecting the right of the Participating Company to discharge or dismiss any employee at any time.

10.15. PLAN YEAR.

For purposes of administering the Plan, the plan year shall begin on January 1 and end on December 31.

10.16. ENTIRE PLAN.

This written Plan document is the final and exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in ARTICLE 7. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to SECTION 9.02.

IN WITNESS WHEREOF, the Company has caused this Plan to be effective on October 1, 1996, and to be executed on this ____ day of _____, 1996.

For Lucent Technologies Inc.

By: _____

Curtis R. Artis
Senior Vice President, Human Resources

Attest: _____
Pamela F. Craven
Vice President - Law
Assistant Secretary

LUCENT TECHNOLOGIES INC. OFFICERS LTD
AND SURVIVOR PROTECTION PLAN
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LUCENT TECHNOLOGIES INC. OFFICER

INCENTIVE AWARD DEFERRAL PLAN

(Effective October 1, 1996)

1. Eligibility

Any employee holding a position at Lucent Technologies Inc. ("Lucent") evaluated or classified above the "E-band" level and identified in Lucent's records as an officer of Lucent (hereinafter "Officer") who was a participant in the AT&T Senior Management Incentive Award Deferral Plan ("predecessor plan"), and any Officer of Lucent Technologies Inc. who is eligible for an award under the Lucent Technologies Inc. Short Term Incentive Plan (the "Short Term Incentive Plan") and/or who has been granted a Performance Award or a Stock Unit Award under the Lucent Technologies Inc. 1996 Long Term Incentive Program ("1996 Program"), shall be eligible to participate in this Lucent Technologies Inc. Officer Incentive Award Deferral Plan (the "Plan"). For purposes of the Plan, the term "Participating Company" shall include Lucent and any of its Affiliates (as defined in the 1996 Program).

2. Participation

(a) Prior to the beginning of any calendar year, any Officer may elect to participate in the Plan by directing that (i) all or part of the awards under the Short Term Incentive Plan, or the Performance Awards or the Stock Unit Awards under the 1996 Program and/or (ii) all or part of the dividend equivalent payments under the 1996 Program, which such employee would otherwise receive currently in such calendar year and subsequent calendar years, shall be credited to a deferred account subject to the terms of the Plan. However, in no event shall the part of an award under any plan credited during

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any calendar year be less than \$1,000 (based on a valuation at the time the award would otherwise be paid). There shall be no such minimum limitation on amounts credited during any calendar year that are related to dividend equivalent payments.

In addition, prior to the beginning of any calendar year, the Chairman of the Board and any other Officer designated by the Chairman of the Board may elect to participate in the Plan by directing that all or part of such Officer's salary, which such employee would otherwise receive currently in such calendar year and subsequent calendar years, shall be credited to a deferred

account subject to the terms of the Plan.

(b) Such an election to participate in the Plan shall be in the form of a document executed by the employee and filed with the employee's Participating Company. An election related to awards, dividend equivalent payments and/ or salary otherwise payable currently in any calendar year shall become irrevocable on the last day prior to the beginning of such calendar year.

(c) An election under this Plan (or the predecessor plan) shall continue until the employee terminates or modifies such election by written notice. Any such termination or modification shall become effective as of the end of the calendar year in which such notice is given with respect to all awards, dividend equivalents and/or salary otherwise payable in subsequent calendar years.

(d) An eligible employee who has filed a termination of election may thereafter again file an election to participate with respect to awards, dividend equivalent payments and/or salary otherwise payable in calendar years subsequent to the filing of such election.

3. Deferred Accounts

(a) Deferred amounts related to awards, dividend equivalent payments which would otherwise have been distributed in cash by a Participating Company and deferred amounts related to salary, including amounts previously deferred under the

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predecessor plan and credited under this Plan, shall be credited to the employee's account and shall bear interest from the date the awards, dividend equivalent payments and/or salary would otherwise have been paid. The interest credited to the account will be compounded at the end of each calendar quarter, and the annual rate of interest applied at the end of any calendar quarter shall be determined by the Lucent Board of Directors from time to time.

(b) Deferred amounts related to awards which would otherwise have been distributed in Lucent common shares by a Participating Company shall be credited to the employee's account as deferred Lucent shares. The employee's account shall also be credited on each dividend payment date for Lucent shares with an amount equivalent to the dividend payable on the number of Lucent common shares equal to the number of deferred Lucent shares in the employee's account on the record date for such dividend. Such amount shall then be converted to a number of additional deferred Lucent shares determined by dividing such amount by the price of Lucent common shares, as determined in the following sentence. The price of Lucent common shares related to any dividend payment date shall be the average of the daily high and low sale prices of Lucent common shares on the New York Stock Exchange ("NYSE") for the period of five trading days ending on such dividend payment date, or the period of five trading days immediately

preceding such dividend payment date if the NYSE is closed on the dividend payment date.

(c) In the event of any change in outstanding Lucent common shares by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, the Lucent Board of Directors shall make such adjustments, if any, that it deems appropriate in the number of deferred Lucent shares then credited to employees' accounts. Any and all such adjustments shall be conclusive and binding upon all parties concerned.

4. Distribution

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(a) At the time an eligible employee makes an election to participate in the Plan (or the predecessor plan), the employee shall also make an election with respect to the distribution (during the employee's lifetime or in the event of the employee's death) of the amounts credited to the employee's deferred account. Such an election related to the distribution during the employee's lifetime, of amounts otherwise payable currently in any calendar year, shall become irrevocable on the last day prior to the beginning of such calendar year. Any election related to the distribution of deferred amounts under the predecessor plan shall continue in effect under this Plan. The election related to the distribution in the event of the employee's death, including the designation of a beneficiary or beneficiaries, may be changed by the employee at any time by filing the appropriate document with the Secretary of the Company.

Amounts credited as cash plus accumulated interest shall be distributed in cash; amounts credited as deferred Lucent shares shall be distributed in the form of an equal number of Lucent shares.

(b) An employee may elect to receive the amounts credited to the employee's account in one payment or in some other number of approximately equal annual installments (not exceeding 20), provided however, that the number of annual installments may not extend beyond the life expectancy of the employee, determined as of the date the first installment is paid. The employee's election shall also specify that the first installment (or the single payment if the employee has so elected) shall be paid either (1) on the first day of the calendar quarter next following the end of the month in which the employee attains the age specified in such election, which age shall not be earlier than age 55 or later than age 70-1/2, (2) on the first day of the calendar quarter next following the end of the month in which the employee retires from a Participating Company or otherwise terminates employment with any Participating Company (except for a transfer to another Participating Company); provided, however, that the Lucent Board of Directors or the Corporate Governance and Compensation Committee of such Board may, in its sole

discretion, direct that the first installment (or the single payment) shall be paid on the first day of the first calendar quarter in the calendar year next following the year of retirement or other termination of employment, or (3) on the first day of the first calendar quarter in the calendar year next following the calendar year in which the employee retires from a Participating Company or otherwise terminates employment with any Participating Company (except for a transfer to another Participating Company).

(c) Notwithstanding an election pursuant to Paragraph (b) of this Section 4, the entire amount then credited to an employee's account shall be paid immediately in a single payment (a) if the employee is discharged for cause by his or her Participating Company, (b) if the Board of Directors of such Participating Company determined that the employee engaged in misconduct in connection with the employee's employment with the Participating Company, (c) if the employee without the consent of the Board of Directors of his or her Participating Company, while employed by such Participating Company or after the termination of such employment, engages in "competitive activity" as such term is defined in the Lucent Technologies Inc. Non-Competition Guideline as in effect from time to time.

(d) An employee may elect that, in the event the employee should die before full payment of all amounts credited to the employee's account, the balance of the deferred amounts shall be distributed in one payment or in some other number of approximately equal annual installments (not exceeding 10) to the beneficiary or beneficiaries designated in writing by the employee, or if no designation has been made, to the estate of the employee. The first installment (or the single payment if the employee has so elected) shall be paid on the first day of the calendar quarter next following the month of death; provided, however, that the Lucent Board of Directors or the Corporate Governance and Compensation Committee of such Board may, in its sole discretion, direct that the first installment (or the single payment) shall be paid on the first day of the first calendar quarter in the calendar year next following the year of death.

(e) Installments subsequent to the first installment to the employee, or to a beneficiary or to the employee's estate, shall be paid on the first day of the applicable calendar quarter in each succeeding calendar year until the entire amount credited to the employee's deferred account shall have been paid. Deferred amounts held pending distribution shall continue to be credited with interest or additional deferred Lucent shares, as applicable, determined in accordance with Section 3(a) and (b).

(f) In the event an employee, or the employee's beneficiary after the employee's death, incurs a severe financial hardship, the Lucent Board of Directors or the Corporate Governance and Compensation Committee of such

Board, in its sole discretion, may accelerate or otherwise revise the payment schedule from the employee's account to the extent reasonably necessary to eliminate the severe financial hardship. For the purpose of this subsection (f), a severe financial hardship must have been caused by an accident, illness, or other event beyond the control of the employee or, if applicable, the beneficiary.

(g) The obligation to make a distribution of deferred amounts credited to an employee's account during any calendar year plus the additional amounts credited on such deferred amounts pursuant to Section 3(a) and (b) shall be borne by the Participating Company which otherwise would have paid the related award or salary currently. However, the obligation to make distribution with respect to deferred amounts which are related to amounts credited as deferred amounts under the predecessor plan, and with respect to which no Participating Company would otherwise have paid the related award or deferred amount currently, shall be borne by the Participating Company to which the Participant has been assigned as of October 1, 1996.

5. Miscellaneous

(a) The deferred amounts, including amounts previously deferred under the predecessor plan and credited under this Plan, shall be held in the general funds of the

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Participating Companies. The Participating Companies shall not be required to reserve, or otherwise set aside, funds for the payment of such amounts.

(b) The rights of an employee to any deferred amounts plus the additional amounts credited pursuant to Section 3(a) and (b) shall not be subject to assignment by the employee.

(c) The Senior Vice President - Human Resources of Lucent shall have the authority to administer and to interpret the Plan.

(d) The Lucent Board of Directors may at any time amend the Plan or terminate the Plan, but such amendment or termination shall not adversely affect the rights of any employee, without his or her consent, to any benefit under the Plan to which such employee may have previously become entitled prior to the effective date of such amendment or termination. The Senior Vice President - Human Resources of Lucent with the concurrence of the Senior Vice President and General Counsel of Lucent shall be authorized to make minor or administrative changes to the Plan, as well as amendments required by applicable federal or state law (or authorized or made desirable by such statutes).

Approved and Adopted

_____ Date: _____

LUCENT TECHNOLOGIES INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in Millions)
 (Unaudited)

<TABLE>
 <CAPTION>

	For the Nine Months Ended September 30,	For the Year Ended December 31,			
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Earnings Before Income Taxes	\$ 367	\$ (1,138)	\$ 784	\$ 619	\$ 278
Less Interest Capitalized During the Period	14	14	7	11	8
Less Undistributed Earnings of Less Than 50% Owned Affiliates	1	2	21	29	-
Add Fixed Charges	311	327	338	321	371
Total Earnings	\$ 663	\$ (827)	\$1,094	\$ 900	\$ 641
Fixed Charges					
Total Interest Expense Including Capitalized Interest	\$ 250	\$ 257	\$ 277	\$ 254	\$ 300
Interest Portion of Rental Expenses	61	70	61	67	71
Total Fixed Charges	\$ 311	\$ 327	\$ 338	\$ 321	\$ 371

Ratio of Earnings to Fixed Charges	2.1	(A)	3.2	2.8	1.7
	=====	=====	=====	=====	=====

</TABLE>

- (A) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as income(loss) before income taxes, less interest capitalized, less undistributed earnings of less than 50% owned affiliates and plus fixed charges. Fixed charges consist of interest expense on all indebtedness and that portion of operating lease rental expense that is representative of the interest factor. Earnings were inadequate to cover fixed charges for the year ended December 31, 1995 by \$1,154.

MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

OVERVIEW

Lucent Technologies Inc. ("Lucent" or the "Company") is one of the world's leading designers, developers and manufacturers of telecommunications systems, software and products. Lucent is a global market leader in the sale of public telecommunications systems, and is a supplier of systems and software to the world's largest networks. Lucent is also a global leader in the sale of business communications systems and microelectronic components for communications systems and computer manufacturers. In addition, Lucent is the largest supplier in the United States of consumer telecommunications products. Lucent is comprised of the systems and technology units that were formerly part of AT&T Corp. ("AT&T"), including the research and development capabilities of Bell Laboratories. Lucent is engaged in the design, development, manufacturing and servicing of systems and software for telecommunications applications within the global telecommunications networking industry. These integrated systems enable network operators and business enterprises to connect, route, manage and store information between and within locations.

On July 17, 1996, Lucent's board of directors voted to change Lucent's fiscal accounting year to begin October 1st and end September 30th. As a result, Lucent's 1996 fiscal year ended on September 30, 1996.

The following table provides the revenues, gross margin, operating income and net income for the twelve months ended September 30, 1996 (excluding business restructuring and other charges) and 1995:

<TABLE>
<CAPTION>
TWELVE MONTHS FINANCIAL INFORMATION

(Dollars in Millions)	SEPTEMBER 30, 1996	September 30, 1995
<S>	<C>	<C>
Revenues	\$23,286	\$20,258
Gross margin	9,786	8,797
Operating income	1,854	1,152
Net income	1,054	553

</TABLE>

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Revenue Summary Chart - Fiscal Year View (in billions of dollars)
For The Twelve Months Ended September 30, 1996 and 1995 -
Total Revenues \$23 Billion and \$20 Billion, Respectively

<TABLE>
<CAPTION>
Revenue Summary - Fiscal Year View
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

(Dollars in Millions)	1996	1995
<S>	<C>	<C>
Systems for Network Opertors	\$13,192	\$10,586
Business Communications Systems	5,509	5,107
Microelectronic Products	2,315	1,821

Consumer Products	1,431	1,836
Other	839	908
Total	23,286	20,258

</TABLE>

For the twelve months ended September 30, 1996 compared with the same period in 1995, revenues from: Systems for Network Operators increased 24.6%, Microelectronic Products increased 27.1% and Business Communications Systems increased 7.9%. As expected, revenues from Consumer Products declined due to the closing of the Phone Center Stores, discontinued unprofitable product lines and decreased rental revenues. Consumer Products revenues decreased 22.1% from the comparable period in 1995.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Lucent reported net income of \$224 million or \$0.38 per share for the nine-month period ended September 30, 1996, compared with \$150 million or \$0.28 per share for the same period in 1995 (assuming all 524,624,894 shares owned by AT&T were outstanding since January 1, 1995). On a pro forma basis, Lucent would have reported \$0.35 per share for the nine-month period ended September 30, 1996 compared with \$0.24 per share for the same period in 1995. The calculation of earnings per share on a pro forma basis assumed that all 636,661,931 common shares outstanding on April 10, 1996 were outstanding since January 1, 1995 and gives no effect to the use of proceeds from the Initial Public Offering ("IPO"). Operating income increased \$53 million or 12.2% in the nine-month period of 1996, compared with the same period of 1995.

INITIAL PUBLIC OFFERING

Prior to February 1, 1996, AT&T conducted Lucent's business through various divisions and subsidiaries. On February 1, 1996, AT&T began executing its decision to separate Lucent into a stand-alone company (the "Separation") by transferring to Lucent the assets and liabilities related to the business, except for \$2,000 million of accounts receivable retained by AT&T. On April 10, 1996, the closing date of the IPO, the Separation was substantially completed, including the transfer of most of the assets and liabilities. The remaining asset and liability transfers, except for employee benefit assets and liabilities, were finalized by September 30, 1996. The effective date of the transfer of employee benefit assets and liabilities to Lucent, or trusts established by Lucent, was October 1, 1996. After the completion of the IPO, AT&T owned 82.4% of the outstanding shares of Lucent's common stock. On September 30, 1996, AT&T distributed all of its shares in Lucent to AT&T shareowners of record as of September 17, 1996.

The 1995 and 1994 consolidated financial statements of Lucent reflect the results of operations, financial position and cash flows of the operations transferred to Lucent from AT&T in the Separation. Accordingly, Lucent's 1995 and 1994 consolidated financial statements have been carved out from the financial statements of AT&T using the historical results of operations and historical basis of the assets and liabilities of the business. Additionally, the consolidated financial statements of Lucent include certain assets, liabilities, revenues and expenses which were not historically recorded at the level of, but are primarily associated with, the business. Management believes the assumptions underlying Lucent's financial statements for 1995 and 1994 are reasonable.

The 1995 and 1994 financial statements, however, may not necessarily reflect the results of operations or financial position of Lucent in the future, or what the results of operations or financial position would have been had Lucent been a separate, stand-alone entity.

VARIABILITY IN THE BUSINESS

Lucent's sales are highly seasonal. Many of Lucent's large customers have historically delayed a disproportionate percentage of their capital expenditures until the fourth quarter of the calendar year. Lucent has placed an increased focus on the completion of software releases by mid-year to allow for commercial availability and delivery in the fourth quarter of the calendar year. These software releases require significant research and development expenditures early in the year, with minimal offsetting revenues, but are key contributors to Lucent's profits during the fourth quarter of the calendar year. Additionally, sales of consumer products are generally stronger in the fourth quarter, corresponding to holiday buying.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

BUSINESS SEASONALITY CHART - QUARTERLY REVENUES - (IN BILLIONS OF DOLLARS)

<TABLE>

<CAPTION>

BUSINESS SEASONALITY -- QUARTERLY REVENUES

(DOLLARS IN MILLIONS)

<S>	<C>
4th Quarter 1994	\$6,272
1st Quarter 1995	4,159
2nd Quarter 1995	5,083
3rd Quarter 1995	4,744
4th Quarter 1995	7,427
1st Quarter 1996	4,577
2nd Quarter 1996	5,364
3rd Quarter 1996	5,918

</TABLE>

There are a number of factors that contribute to variability in Lucent's business. This variability can produce wide fluctuations in revenues and earnings quarter to quarter, and in some cases year to year. Variability is not a new trend and Lucent expects it to continue, and possibly intensify.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

The growing competitive pressures among network operators, along with the increase in software revenues, have resulted in an increasing trend toward seasonality. Consequently, Lucent's results of operations for the first three quarters of each calendar year historically have, in the aggregate, been significantly less profitable than the fourth quarter. Lucent has reported net losses in the first quarter of each calendar year.

In recent years, the purchasing behavior of Lucent's large customers has increasingly been characterized by the use of fewer, larger contracts. This trend is expected to intensify, and contributes to the variability of Lucent's results. Such larger purchase contracts typically involve longer negotiating cycles, require the dedication of substantial amounts of working capital and other resources, and in general require investments which may substantially precede recognition of associated revenues. Moreover, in return for larger, longer-term purchase commitments, customers often demand more stringent acceptance criteria which can also cause revenue recognition delays, as well as financing from Lucent. Certain multi-year contracts may involve new technologies which may not have been previously deployed on a large-scale commercial basis. Lucent may incur significant initial cost overruns and losses on such contracts which would be recognized in the quarter in which they became ascertainable.

Further, profit estimates on such contracts are revised periodically over the lives of the contracts, and such revisions can have a significant impact on reported earnings in any one quarter.

To manage this fluctuation caused by the buying behaviors of large customers, Lucent continues to seek out new types of customers both in the United States and internationally, such as competitive access providers, cable television network operators and computer manufacturers.

Lucent continues to face significant competition in its markets and expects that the level of competition on pricing and product offerings will intensify. Lucent expects that new competitors will enter its markets as a result of the combined impact of global expansion by foreign and domestic competitors as well as continued changes in technology and public policy. Lucent's business leaders continuously assess the Company's resource needs and redirect them as necessary to address market conditions and to reduce costs. Such steps can include closing and consolidating facilities, disposing of assets, reducing workforce levels or withdrawing from markets.

In February 1996, Lucent acquired several manufacturing and other operations of certain subsidiaries of Philips Electronics NV ("Philips"), primarily in Germany and France. The acquisition was designed to permit Lucent to expand its global line of systems which support non-United States standards for mobile and fixed wireless access and digital optical transport. Lucent also purchased Agile Networks ("Agile") in October 1996 to offer enhanced capabilities to business customers in managing their multimedia networks more effectively. Agile's advanced intelligent data switching products support Ethernet as well as emerging asynchronous transfer mode ("ATM") technology. Agile also offers "virtual local area network" software. Lucent is in the process of determining the allocation of the purchase price. Additionally, 1996 included businesses Lucent has sold or plans to dispose of by the end of the calendar year (the results of such operations are not material to the consolidated financial statements). For example, Lucent sold its Paradyne business in July 1996 and signed a letter of intent to sell its interconnect products business.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES
(Dollars in Millions, Except Per Share Amounts)

<TABLE>
<CAPTION>

FIVE YEAR SUMMARY (Unaudited)	Nine Months Ended September 30,				Year Ended December 31,	
	1996	1995	1995 (1)	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>	<C>
RESULTS OF OPERATIONS						
Revenues	\$ 15,859	\$ 13,986	\$ 21,413	\$ 19,765	\$ 17,734	\$ 17,312
Gross margin	6,569	6,143	8,468	8,428	7,646	6,929
Operating income(loss)	487	434	(1,000)	971	669	404
Income(loss) before cumulative effects of accounting changes	224	150	(867)	482	430	179
Cumulative effects of accounting change	-	-	-	-	(4,208)	-
Net income(loss)	224	150	(867)	482	(3,778)	179
Earnings per common share - Historical(2)	0.38	0.28	(1.65)	n/a	n/a	n/a
Earnings per common share - Pro Forma(3)	0.35	0.24	(1.36)	n/a	n/a	n/a
Dividends per common share	0.15	-	-	n/a	n/a	n/a
FINANCIAL POSITION						
Total assets	\$ 22,626	\$ 18,219	\$ 19,722	\$ 17,340	\$ 17,109	\$ 14,466

Working capital	2,068	188	(384)	246	1,773	(1,719)
Total debt	3,997	4,192	4,014	3,164	3,195	3,942
Shareowners' equity	2,686	2,783	1,434	2,476	2,580	3,098

OTHER INFORMATION

Sales, general and administrative expenses as a percentage of revenues	26.8%	28.9%	33.1%	27.1%	28.3%	27.8%
Research and development expenses as a percentage of revenues	11.6	12.0	11.1	10.6	11.1	9.9
Gross margin percentage	41.4	43.9	39.5	42.6	43.1	40.0

</TABLE>

- (1) Includes pretax restructuring and other charges of \$2,801 (\$1,847 after taxes) recorded as \$892 of costs, \$1,645 of selling, general and administrative expenses and \$264 of research and development expenses.
- (2) 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.
- (3) The calculation of earnings per share on a pro forma basis assumed that all 636,661,931 common shares outstanding on April 10, 1996 were outstanding since January 1, 1995 and gives no effect to the use of proceeds from the IPO.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

NINE MONTHS ENDED SEPTEMBER 30, 1996 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 1995

REVENUES

Total revenues increased \$1,873 million or 13.4% for the nine-month period of 1996, compared with the same period of 1995, primarily due to gains in sales from Systems for Network Operators, Microelectronic Products and Business Communications Systems. The overall revenue growth was partially offset by the expected decline in revenues from Consumer Products due to the closing of the Phone Center Stores, discontinuance of unprofitable product lines and the decreased telephone rental revenues. Revenue growth continued to be generated both from sales in the United States and internationally (including exports). International revenues represented 23.1% of total revenues in 1996 compared with 20.7% of total revenues in 1995. The following table presents Lucent's revenues by product line, and the related approximate percentage of total revenues for the nine months ended September 30, 1996 and 1995 (1995 has been restated to align intellectual property and other service revenues with Lucent's operating units):

<TABLE>

<CAPTION>

(Dollars in Millions)	Nine Months Ended September 30,			
	1996		1995	
<S>	<C>	<C>	<C>	<C>
Systems for Network Operators	\$ 8,637	54%	\$ 6,914	49%
Business Communications Systems	3,983	25	3,710	27
Microelectronic Products	1,756	11	1,420	10
Consumer Products	880	6	1,238	9
Other Systems and Products	603	4	704	5

Total \$15,859 100% \$13,986 100%

</TABLE>

Revenues from Systems for Network Operators increased \$1,723 million or 24.9% compared with the same period in 1995. The increase was driven by higher sales of switching, transmission, fiber-optic cable products and professional services. Demand for those products was driven by second line subscriber growth and customer demand for continued network upgrades. In 1996, a contract was signed with ICG Communications, Inc. to supply the latest advanced telecommunications products and services. This is an example of Lucent's product offerings to alternative network access providers which will support the expansion and enhancement of their networks.

MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Software sales increased \$117 million or 15.0% compared with the same period in 1995. For 1996, sales of wireless infrastructure increased \$69 million or 6.4 % compared to the same period in 1995. In July 1996, Lucent signed a contract with Cox California PCS, Inc. ("Cox") for the purchase of personal communications services ("PCS") network equipment and services. The system being built by Cox will integrate its existing cable infrastructure with PCS networks, using the Code Division Multiple Access ("CDMA") technology. Lucent expects to recognize revenue related to its digital PCS contracts in subsequent periods.

Sales from Systems for Network Operators in the United States increased 23.4% and international revenues increased 29.6% compared with the same period in 1995. The revenue increase in the United States was led by sales to AT&T and the Regional Bell Operating Companies, partially offset by a revenue decrease resulting from Lucent's exit from the copper cable business in 1995. Increased sales of infrastructure systems and services continue to drive international revenue growth in the Asia/Pacific and Europe/Middle-East/Africa regions. In addition, the international revenue increase includes approximately \$298 million in revenue resulting from the acquisition of Philips. International revenues represented 24.8% of revenues from Systems for Network Operators in the nine-month period of 1996 compared with 23.9% in the same period of 1995.

Lucent continues to focus resources on marketing CDMA technology. This latest technology has shown acceptance in both the international and domestic markets. Recently, Lucent has made progress in the buildout of CDMA infrastructure for PrimeCo Personal Communications LP. During the first quarter of 1996, Lucent was awarded a contract from Sprint Spectrum Holdings LP ("SSLP") to supply equipment and services for approximately 60% of SSLP's market areas for its nationwide PCS wireless network over a five-year period.

Revenues from Business Communications Systems increased \$273 million or 7.4% compared with the same period in 1995. This increase was primarily due to higher sales in the United States and internationally, partially offset by the continued erosion of the rental base. The revenue growth in the United States was led by sales of DEFINITY(R) products, SYSTIMAX(R) structured wiring systems and INTUITY(TM) voice messaging products as well as higher revenue from call centers and maintenance contracts. International revenues increased by 24.7%, reflecting growth in all international regions.

(R) Registered trademark of Lucent
(TM) Trademark of Lucent

MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Sales of Microelectronic Products increased \$336 million or 23.7% compared with the same period in 1995 due to higher sales of digital signal processors ("DSPs") and application specific integrated circuits ("ASICs") to original equipment manufacturers ("OEMs"), both internationally and in the United States. Domestic revenues increased 14.7% compared to the period in 1995, led by sales to OEMs. The growth in international revenues of 34.6% was driven by continued strength of DSPs and ASICs sales in the Asia/Pacific region. International revenues represented 49.0% of the Microelectronic Products sales for the nine-month period of 1996. In 1996, Microelectronic Products revenue growth exceeded the growth rate reported by the semiconductor industry for microprocessors. Microelectronic Products has been successful in focusing its resources in those areas of the semiconductor industry that are experiencing the highest growth rates and building products that are least exposed to the cyclical nature of the semiconductor industry.

In August 1996, Lucent signed a letter of intent to sell its interconnect products business to Hicks, Muse, Tate and Furst Incorporated of Dallas ("HMT&F Inc"), subject to certain conditions. In connection with the sale, Lucent would enter into a contract to purchase products from HMT&F Inc over a several year period.

Revenues from Consumer Products decreased \$358 million or 28.9% compared with the same period in 1995. The expected decline in revenues was primarily due to the decrease in product sales resulting from the closing of the Phone Center Stores, the discontinuance of unprofitable product lines and the decrease in telephone rentals. Consumer Products will continue to distribute its products through retailers.

Revenues from Other Systems and Products decreased \$101 million or 14.3% compared with the same period in 1995. These revenues include sales from the Paradyne subsidiary sold in July 1996 as well as the custom manufacturing systems business, which Lucent expects to sell by the end of 1996.

COSTS

Total costs increased \$1,447 million or 18.4% in 1996 compared with the same period in 1995 due primarily to higher sales volumes. As a percentage of revenue, gross margin declined to 41.4% from 43.9% in the year-ago period. This gross margin decline was due to changes in the mix of revenues, erosion of high margin rental revenues and lower margins on Philips' products. The revenue mix reflected a higher proportion of hardware sales and a higher proportion of revenues from contracts accounted for on a percentage of completion basis ("POC"). Under POC accounting, direct contract expenditures are accounted for as costs and not operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

OPERATING EXPENSES

Selling, general and administrative expenses increased \$207 million or 5.1% compared with the same period in 1995. Included are approximately \$160 million due to expenditures associated with start-up related costs such as advertising and creating a new information systems infrastructure, as well as the additional expenses resulting from the consolidation of Philips' financial results.

Selling, general and administrative expenses were 26.8% of revenues for the nine-month period of 1996 compared with 28.9% of revenues for the same period last year.

Research and development expenses increased \$166 million or 9.9% compared with the same period in 1995. Research and development expenses represented 11.6% of revenues for the nine-month period of 1996 compared with 12.0% of revenues for the same period in 1995.

OTHER INCOME AND PROVISION FOR INCOME TAXES

Other income -- net increased \$54 million compared with the same period in 1995.

The increase was primarily due to interest income on short-term investments.

The effective income tax rate of 39.0% for the nine-month period of 1996 decreased from 40.2% in the same period of 1995, primarily due to increased federal research tax credits.

CASH FLOWS

Cash from operating activities increased compared with the same period in 1995 due to an increase in prepayments from customers. Additionally, inventory in 1996 remained relatively level versus the buildup reported in 1995. These activities were offset by AT&T's retention of \$2,000 million of accounts receivable in 1996.

Cash payments of \$456 million related to business restructuring were made during the nine months of 1996. The September 30, 1996 remaining balance will result in future cash payments over the next two years. Of the 22,000 employee separations announced as part of the 1995 business restructuring, approximately 11,400 people left the workforce as of September 30, 1996. In addition, approximately 1,000 employees left Lucent's workforce as part of the sale of Paradyne. Actual experience in employee separations, combined with redeployment of employees into other areas of the business, has resulted in lower separation costs than originally anticipated. Lucent anticipates that approximately 70% of the total expected employee separations will be complete by the end of December 1996.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

The increase in cash used in investing activities was largely the result of the Philips acquisition and higher capital expenditures compared with the same period in 1995. Capital expenditures, the largest component, were \$939 million and \$784 million for the nine-month periods ended September 30, 1996 and 1995, respectively. These expenditures related to the expansion of manufacturing capacity of Microelectronic Products and the necessary expansion of various other facilities.

Cash provided by financing activities increased primarily due to the proceeds from the IPO in 1996 compared with the same period in 1995.

In 1995, Lucent relied on AT&T to provide financing for its operations. Cash flows from financing activities in 1995 principally reflect changes in Lucent's assumed capital structure. These cash flows are not necessarily indicative of the cash flows from financing activities that would have resulted if Lucent was a stand-alone entity.

TWELVE MONTHS ENDED DECEMBER 31, 1995 VERSUS TWELVE MONTHS ENDED DECEMBER 31, 1994

REVENUES

For 1995, Lucent reported a net loss of \$867 million, reflecting \$2,801 million (\$1,847 million after taxes) of restructuring and other charges. Excluding the charges, net income was \$980 million, an increase of \$498 million compared with 1994. The following table presents Lucent's revenues by product line, and the related approximate percentage of total revenues for 1995 and 1994 (1995 has been restated to align intellectual property and other service revenues with Lucent's operating units):

<TABLE>

<CAPTION>

	Twelve Months Ended December 31,			
(Dollars in Millions)	1995			1994
<S>	<C>	<C>	<C>	<C>
Systems for Network Operators	\$11,469	54%	\$10,841	55%

Business Communications Systems	5,236	25	4,557	23
Microelectronic Products	1,979	9	1,461	7
Consumer Products	1,789	8	1,924	10
Other Systems and Products	940	4	982	5
Total	\$21,413	100%	\$19,765	100%

</TABLE>

Revenues grew in Lucent's three largest product lines in 1995 compared with 1994, causing total revenues to increase \$1,648 million or 8.3%. Growth in revenues from customers outside the United States (international and export) provided 74.5% of the increase in revenues. International revenues (which include export revenues) represented 23.3% of total revenues in 1995 compared with 19.1% of total revenues in 1994.

Revenues from Systems for Network Operators were \$11,469 million, an increase of \$628 million or 5.8% in 1995 compared with 1994. Sales of wireless infrastructure to network operators accounted for approximately 15% of total sales to network operators. Sales in the United States were essentially flat, which was caused by delays in spending by network operators and their growing reluctance to purchase from AT&T, a potential competitor. However, domestic sales of wireless infrastructure increased approximately 19%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Revenues from Systems for Network Operators outside the United States increased approximately 28% in 1995 compared with 1994. These increases were primarily due to increases in sales of wireless infrastructure of approximately 14% and increases in sales of switching and transmission systems, including software, of approximately 22%.

Revenues from Business Communications Systems of \$5,236 million increased \$679 million or 14.9% in 1995 compared with 1994, primarily due to strong United States and international product sales growth. Service revenues increased due to growth in maintenance contracts. United States revenues grew approximately 12%, primarily due to increased sales of DEFINITY(R) products, including upgrades, and sales of INTUITY(TM) voice messaging products. This increase was offset in part by the continuing decline in the rental base of approximately \$84 million. International revenues grew approximately 36%, primarily due to sales of Lucent's SYSTIMAX(R) structured cabling systems and higher sales of private branch exchanges and call centers through international distributors.

Sales of Microelectronic Products of \$1,979 million increased \$518 million or 35.5% in 1995 compared with 1994, due to higher sales of ASICs both inside and outside the United States. Most of this growth resulted from sales to customers outside the United States.

Revenues from Consumer Products were \$1,789 million, a decline of \$135 million or 7.0% in 1995 compared with 1994. Included in these revenues were \$425 million in sales through the Phone Center Stores, which Lucent closed in 1996. The decrease in 1995 revenues was primarily due to the expected continuing decline in the customer base for rental revenues for telephones and declines in product sales related to discontinued product lines, partially offset by strong consumer demand for cordless telephones.

Revenues from Other Systems and Products sales of \$940 million in 1995 decreased \$42 million or 4.3% compared with 1994.

COSTS

Costs of \$12,945 million increased \$1,608 million or 14.2% in 1995 compared with 1994. Excluding the restructuring and other charges of \$892 million, costs grew \$716 million or 6.3%, reflecting the higher volume of sales and services. Gross margin decreased to 39.5% in 1995 from 42.6% in 1994, due to restructuring and other charges. Excluding these charges, gross margin increased to 43.7% in 1995 due to increased sales of higher margin software products to network operators, offset in part by the erosion of high margin rental revenues.

OPERATING EXPENSES

Selling, general and administrative expenses of \$7,083 million increased \$1,723 million or 32.1% in 1995 compared with 1994. This increase was due to \$1,645 million in restructuring and other charges and increased spending on sales and sales support efforts, including expenses relating to growth in international revenues. Selling, general and administrative expenses were 33.1% of revenues in 1995, an increase from 27.1% of revenues in 1994, reflecting the restructuring charges. These restructuring charges were principally related to the reduction in personnel in administrative and corporate support functions and at Phone Center Stores. Excluding the charges, selling, general and administrative expenses were 25.4% of revenues in 1995, reflecting cost containment efforts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Research and development expenses of \$2,385 million increased \$288 million or 13.7% in 1995 compared with 1994. This increase was due to restructuring charges of \$264 million (principally related to the reduction in administrative support functions at Bell Labs and disposal of research and development assets related to changing technologies), as well as development work associated with software, wireless access and type approval, and certification of products for local markets. Research and development expenses represented 11.1% of revenues in 1995 compared with 10.6% of revenues in 1994. Excluding the charges, research and development expenses represented 9.9% of revenues in 1995.

OTHER INCOME, INTEREST EXPENSE AND PROVISION FOR INCOME TAXES

Other income -- net increased \$81 million to \$164 million in 1995 compared with 1994, primarily due to gains on investments in 1995.

Interest expense in 1995 was \$302 million, an increase of \$32 million or 12% compared with 1994. The increase was due to higher average debt levels in 1995 compared with 1994. The average borrowings assumed to be outstanding in 1995 increased to approximately \$3,589 million from approximately \$3,179 million in 1994.

The effective income tax rate of 23.8% in 1995 decreased from 38.5% in 1994, primarily due to the nondeductibility of certain 1995 restructuring and other charges, which resulted in a net loss for 1995.

CASH FLOWS

Lucent's cash from operations decreased in 1995 compared with the same period in 1994. The decline in cash provided by operations in 1995 was primarily due to the higher accounts receivable balance at year-end 1995, reflecting significantly higher calendar year fourth quarter sales, and higher inventory balances, as work in process for long-term contracts increased.

Cash used in investing activities increased in 1995 compared with the same period in 1994 primarily because of the increase in capital expenditures. In 1995, capital expenditures included construction of a new facility to consolidate Lucent's operations and expansion of manufacturing capacity for ASICs and wireless equipment.

Net cash provided by financing activities increased in 1995 compared with the same period in 1994. Lucent historically had relied on AT&T to provide financing for its operations. Cash flows from financing activities reflected the changes required to maintain its assumed capital structure. These cash flows were not necessarily indicative of the cash flows from financing activities that would have resulted if Lucent was a stand-alone entity.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total assets as of September 30, 1996, increased \$2,904 million or 14.7% from year-end 1995, largely as a result of the cash generated from Lucent's IPO and a \$500 million cash advance received from AT&T. Higher inventory levels also contributed to the increase in total assets compared with year-end 1995. These increases were partially offset by a decline in accounts receivable. At December 31, accounts receivable are historically at their highest levels and inventory levels are historically at their lowest.

Working capital, defined as current assets less current liabilities, increased \$2,452 million from year-end primarily resulting from the cash generated from the IPO and the repayment of commercial paper with the net proceeds from the issuance of long-term debt. The increase would have been greater, if not for the retention of \$2,000 million of customer accounts receivable by AT&T.

The fair value of Lucent's pension plan assets is greater than the projected pension obligations. Lucent records pension income when the expected return on plan assets plus amortization of the transition asset is greater than the interest cost on the projected benefit obligation plus service cost for the year. Consequently, Lucent continued to have pension income that added to the prepaid pension costs in 1996.

Payroll and benefit-related liabilities decreased \$534 million primarily due to separation payments associated with the workforce reduction.

The increase in shareowners' equity resulted primarily from the IPO proceeds of \$2,887 million offset by the retention by AT&T of \$2,000 million of customer accounts receivable.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Lucent filed a registration statement on Form S-3, which became effective on April 3, 1996, to register the offering from time to time of up to \$3,500 million of debt securities. On July 22, 1996, Lucent issued \$1,500 million of long-term debt to pay down a portion of its commercial paper. Lucent expects that, over time, it may replace all or part of the outstanding commercial paper with short- or long-term borrowings as market conditions permit. Lucent maintains \$6,000 million in credit facilities (a portion of which is used to support Lucent's commercial paper program) that were unused at September 30, 1996. Lucent also maintains lines of credit with primarily foreign banks totaling approximately \$430 million. At September 30, 1996, \$267 million of these foreign lines of credit were unused. Future financings will be arranged to meet Lucent's requirements with the timing, amount and form of issue depending on the prevailing market and general economic conditions. Lucent anticipates that borrowings under its bank credit facilities, the issuance of additional commercial paper, cash generated from operations and short- and long-term debt financings will be adequate to satisfy its future cash requirements, although there can be no assurance that this will be the case.

Lucent entered into a credit agreement in October 1996 to provide SSLP long-term financing of \$1,800 million for purchasing equipment and services for its PCS network. Loans made under this credit agreement defer any principal payment for up to four years. Repayment of principal will occur over a subsequent five-year period. Payment of quarterly interest on each borrowing may be deferred at the borrower's option for up to two years. Lucent is currently discussing with financial institutions potential alternatives to sell loans it may make under the credit agreement, which will depend, among other things, on the market conditions and requirements at the time.

Network operators, domestically and internationally, have increasingly required their suppliers to arrange or provide long-term financing for them as a condition to obtaining or bidding on infrastructure projects. These projects may require financing in amounts ranging from modest sums to over a billion dollars. Lucent is proposing, and committing, to provide financing where appropriate for

its business, in addition to the SSLP credit agreement discussed above.

Lucent believes that it will be able to access the capital markets on terms and in amounts that will be satisfactory, and that it will be able to obtain bid and performance bonds, to arrange or provide customer financing as necessary, and to engage in hedging transactions on commercially acceptable terms, although there can be no assurance that this will be the case.

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. Lucent's nonderivative financial instruments include letters of credit, commitments to extend credit, and guarantees of debt.

By their nature, all such instruments involve risk, including market risk and the credit risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized in the balance sheet. All of Lucent's foreign currency exchange contracts are hedges against specific exposures. In foreign exchange contracts, Lucent assumed the risk from the possible inability of counterparties to meet the terms of their contracts; however, management believes this risk to be remote since the counterparties to these contracts are major international institutions. Lucent controls its exposure to credit risk associated with its financial instruments through credit approvals, credit limits and monitoring procedures. At September 30, 1996, in management's opinion, Lucent did not have any significant exposure to any individual customer or counterparty, nor did Lucent have any major concentration of credit risk related to any financial instrument.

The ratio of total debt to total capital (debt plus equity) was 59.8% at September 30, 1996 compared with 63.3% on a pro forma basis at December 31, 1995.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

OTHER

One of Lucent's multi-year contracts is with Pacific Bell for the provision of a broadband network based on hybrid fiber-coaxial cable technology. In July 1996, Lucent and Pacific Bell agreed to modify the terms of the contract so as to resolve issues and potential claims which may have arisen due to implementation difficulties and cost overruns under the contract. Lucent's consolidated financial statements include reserves to reflect these contract modifications. Lucent will continue to assess the adequacy of these reserves.

On July 26, 1996, as part of the corporate restructuring efforts, Lucent signed a long-term contract turning over a significant portion of the day-to-day operations and management of its information technology and production application work to ISSC, an IBM subsidiary. Implementation of the multi-year contract became effective July 1, 1996. This outsourcing contract covers work such as the operation of Lucent's mainframe data centers, computer maintenance and installation, desktop computer support (including help desk functions), most production system applications maintenance and some applications development.

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 46 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, among AT&T, Lucent and NCR Corporation ("NCR") dated as of February 1, 1996, and amended and restated as of March 29, 1996 ("Separation and Distribution Agreement"), Lucent is responsible for all liabilities primarily resulting from or related 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 the 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 period of remediation for the applicable site which ranges 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 in respect to 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 and other expenditures, 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 amounts of environmental costs that may be incurred in excess of those provided for at September 30, 1996 cannot be determined.

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MANAGEMENT'S DISCUSSION AND ANALYSIS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Lucent operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," 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 ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Lucent undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include increasing price and product/service competition by foreign and domestic competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost effective basis; the mix of products/services; the achievement of lower costs and expenses; domestic and foreign governmental and public policy changes including environmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in increasing use of large, multi-year contracts; the cyclical nature of Lucent's business; the outcome of pending and future litigation and governmental proceedings and continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support Lucent's future business. These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and

international economic conditions including interest rate and currency exchange rate fluctuations and other Future Factors.

RECENT PRONOUNCEMENTS

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Standard provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. For Lucent, this Standard will be effective in the second quarter of the new fiscal year 1997. The adoption of this Standard is not expected to impact Lucent's consolidated results of operations, financial position or cash flows.

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REPORT OF MANAGEMENT

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

Management is responsible for the preparation of Lucent Technologies Inc.'s consolidated financial statements and all related information appearing in this Annual Report. The financial statements and notes have been prepared in conformity with generally accepted accounting principles and include certain amounts which are estimates based upon currently available information and management's judgment of current conditions and circumstances.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements, management maintains a system of accounting and other controls, including an internal audit function. Even an effective internal control system, no matter how well designed, has inherent limitations - including the possibility of circumvention or overriding of controls - and therefore can provide only reasonable assurance with respect to financial statement presentation. The system of accounting and other controls is improved and modified in response to changes in business conditions and operations and recommendations made by the independent public accountants and the internal auditors.

The Audit and Finance Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit and Finance Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit and Finance Committee and have access to its individual members.

Lucent engaged Coopers & Lybrand L.L.P., independent public accountants, to audit the consolidated financial statements in accordance with generally accepted auditing standards, which include consideration of the internal control structure. Their report appears on this page.

/s/ Henry B. Schacht

/s/ Donald K. Peterson

Henry B. Schacht
Chairman of the Board,
Chief Executive Officer

Donald K. Peterson
Executive Vice President,
Chief Financial Officer

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To the Shareowners of Lucent Technologies Inc.:

We have audited the consolidated balance sheets of Lucent Technologies Inc. and subsidiaries as of September 30, 1996 and December 31, 1995 and the related consolidated statements of income, changes in shareowners' equity, and cash flows for the nine-month period ended September 30, 1996 and the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lucent Technologies Inc. and subsidiaries as of September 30, 1996 and December 31, 1995, and the consolidated results of their operations, changes in their shareowners' equity, and their cash flows for the nine-month period ended September 30, 1996 and the years ended December 31, 1995 and 1994, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, New York
October 24, 1996

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CONSOLIDATED STATEMENTS OF INCOME LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES
(Dollars in Millions, Except Per Share Amounts)

<TABLE>
<CAPTION>

	----- Nine Months Ended September 30, -----		----- Year Ended December 31, -----	
	1996	1995	1995	1994
	----- Unaudited -----			
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 15,859	\$ 13,986	\$ 21,413	\$ 19,765
COSTS	9,290	7,843	12,945	11,337
GROSS MARGIN	6,569	6,143	8,468	8,428
OPERATING EXPENSES				
Selling, general and administrative	4,244	4,037	7,083	5,360
Research and development	1,838	1,672	2,385	2,097
Total operating expenses	6,082	5,709	9,468	7,457
OPERATING INCOME (LOSS)	487	434	(1,000)	971
Other income - net	96	42	164	83
Interest expense	216	225	302	270

INCOME (LOSS) BEFORE INCOME TAXES	367	251	(1,138)	784
Provision(benefit) for income taxes	143	101	(271)	302
NET INCOME (LOSS)	\$ 224	\$ 150	\$ (867)	\$ 482
Weighted average common shares outstanding (millions)	595.9	524.6	524.6	n/a
EARNINGS (LOSS) PER COMMON SHARE	\$ 0.38	\$ 0.28	\$ (1.65)	n/a
DIVIDENDS PER COMMON SHARE	\$ 0.15	\$ --	\$ --	n/a

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES
(Dollars in Millions, Except Per Share Amount)

<TABLE>
<CAPTION>

	----- SEPTEMBER 30, ----- 1996	----- December 31, ----- 1995
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	\$ 2,241	\$ 448
Accounts receivable less allowances of \$273 in 1996 and \$248 in 1995	4,914	5,354
Inventories	3,288	2,851
Contracts in process (net of progress billings of \$708 in 1996 and \$355 in 1995)	505	371
Deferred income taxes - net	1,617	1,482
Other current assets	216	173
TOTAL CURRENT ASSETS	12,781	10,679
Property, plant and equipment, net	4,687	4,338
Prepaid pension costs	2,828	2,522
Deferred income taxes - net	979	872
Capitalized software development costs	362	387
Other assets	989	924
TOTAL ASSETS	\$ 22,626	\$ 19,722
LIABILITIES		
Accounts payable	\$ 1,900	\$ 1,229
Payroll and benefit-related liabilities	2,492	3,026
Postretirement and postemployment benefit liabilities	220	227
Debt sharing amount in anticipation of the assumption of the Commercial Paper Program	-	3,842
Debt maturing within one year	2,363	49
Other current liabilities	3,738	2,690
TOTAL CURRENT LIABILITIES	10,713	11,063

Postretirement and postemployment benefit liabilities	5,642	5,569
Long-term debt	1,634	123
Other liabilities	1,951	1,533
TOTAL LIABILITIES	\$ 19,940	\$ 18,288

Commitments and contingencies

SHAREOWNERS' EQUITY

Common stock - par value \$.01 per share		
Authorized shares: 3,000,000,000		
Issued and outstanding shares:		
636,662,634 at September 30, 1996;		
1,000 at December 31, 1995	\$ 6	\$ -
Additional paid-in capital	2,595	1,406
Guaranteed ESOP obligation	(106)	-
Foreign currency translation	(16)	28
Retained earnings	207	-
TOTAL SHAREOWNERS' EQUITY	\$ 2,686	\$ 1,434

TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$22,626	\$19,722
--	-----------------	-----------------

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars in Millions)

<TABLE>
<CAPTION>

	----- Nine Months Ended September 30, ----- 1996	----- Year Ended December 31, ----- 1995	----- 1994
COMMON STOCK			
<S>	<C>	<C>	<C>
Balance at beginning of period	\$ -	\$ -	\$ -
Issuance of 1,000 shares	-	-	-
Issuance of 524,623,894 shares	5	-	-
Issuance of 112,037,037 shares	1	-	-
Issuance of 703 shares	-	-	-
Balance at end of period	6	-	-
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	1,406	-	-
Issuance of 112,037,037 shares	2,881	-	-
Loss from 1/1/96 through 1/31/96	(72)	-	-
Dividends declared	(7)	-	-
Accounts receivable holdback by AT&T	(2,000)	-	-
Unrealized gain on investments	15	-	-
Acceptance of ESOP	120	-	-
Other contributions from AT&T	252	1,406	-
Balance at end of period	2,595	1,406	-
GUARANTEED ESOP OBLIGATION			
Balance at beginning of period	-	-	-

Acceptance of ESOP	(120)	-	-
Amortization of ESOP obligation	14	-	-
Balance at end of period	(106)	-	-
FOREIGN CURRENCY			
TRANSLATION ADJUSTMENTS			
Balance at beginning of period	28	92	(10)
Translation adjustments	(44)	(64)	102
Balance at end of period	(16)	28	92
SHAREOWNER'S NET INVESTMENT			
Balance at beginning of period	-	2,384	2,590
Net income(loss)	-	(867)	482
Transfers to AT&T	-	(111)	(688)
Transfer to additional paid-in capital	-	(1,406)	-
Balance at end of period	-	-	2,384
RETAINED EARNINGS			
Balance at beginning of period	-	-	-
Net income from 2/1/96 through 9/30/96	296	-	-
Dividends declared	(89)	-	-
Balance at end of period	207	-	-
TOTAL SHAREOWNERS' EQUITY	\$ 2,686	\$ 1,434	\$2,476

</TABLE>

See Notes to Consolidated Financial Statements.

Lucent has 250 million authorized shares of preferred stock at \$1 par value.

No preferred stock is currently issued or outstanding.

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CONSOLIDATED STATEMENTS OF CASH FLOWS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES
(Dollars in Millions)

<TABLE>
<CAPTION>

	----- Nine Months Ended September 30, -----		----- Year Ended December 31, -----	
	1996	1995	1995	1994
	Unaudited			
	<C>	<C>	<C>	<C>
OPERATING ACTIVITIES:				
Net income(loss)	\$ 224	\$ 150	\$ (867)	\$ 482
Adjustments to reconcile net income(loss) to net cash provided by (used in)operating activities:				
Business restructuring charge	(98)	-	2,613	-
Asset impairment and other charges	105	-	188	-
Depreciation and amortization	937	1,104	1,493	1,311
Provision for uncollectibles	54	50	69	83
Deferred income taxes	(251)	92	(653)	338
(Increase) decrease in accounts receivable	(1,506)	405	(1,203)	(159)
(Increase) in inventories and contracts in process	(524)	(1,304)	(1,089)	(26)
Increase (decrease) in				

accounts payable	629	(121)	271	291
Changes in other operating assets and liabilities	537	(744)	(241)	(564)
Other adjustments for noncash items - net	(111)	(137)	(103)	(177)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(4)	(505)	478	1,579
INVESTING ACTIVITIES:				
Capital expenditures	(939)	(784)	(1,277)	(878)
Proceeds from the sale or disposal of property, plant and equipment	15	14	118	15
Purchases of equity investments	(46)	(36)	(86)	(38)
Sales of equity investments	102	-	-	290
Dispositions of businesses, net of cash relinquished	58	10	10	119
Acquisitions of businesses, net of cash acquired	(234)	-	-	-
Other investing activities - net	(22)	26	(107)	(75)
NET CASH USED IN INVESTING ACTIVITIES	(1,066)	(770)	(1,342)	(567)
FINANCING ACTIVITIES:				
Repayments of long-term debt	(39)	(32)	(46)	(22)
Issuance of long-term debt	1,499	-	-	-
Proceeds of issuance of common stock	2,887	-	-	-
Dividends paid	(48)	-	-	-
Proceeds of debt sharing agreement - net	-	948	881	53
Transfers from (to) AT&T	13	92	(111)	(688)
(Increase) decrease in short-term borrowings - net	(1,436)	89	-	(84)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,876	1,097	724	(741)

(CONT'D)

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES
(CONT'D)
(Dollars in Millions)

<TABLE>
<CAPTION>

	----- Nine Months Ended September 30, -----		----- Year Ended December 31, -----	
	1996	1995 Unaudited	1995	1994
<S>	<C>	<C>	<C>	<C>
Effect of exchange rate changes on cash and cash equivalents	\$ (13)	\$ 11	\$ 8	\$ 13
Net increase (decrease) in cash and cash equivalents	1,793	(167)	(132)	284
Cash and cash equivalents at beginning of year	448	580	580	296

CASH AND CASH EQUIVALENTS					
AT END OF PERIOD	\$ 2,241	\$ 413	\$ 448	\$ 580	

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

1. BACKGROUND AND BASIS OF PRESENTATION

BACKGROUND

On September 20, 1995, AT&T Corp. ("AT&T") announced its intention to create a separate company comprised of the AT&T operations that are now Lucent Technologies Inc. (the "Separation"). Lucent Technologies Inc. ("Lucent" or the "Company") was incorporated on November 29, 1995 with 1,000 shares of Lucent common stock ("Common Stock"), all of which were owned by AT&T. In February 1996, AT&T began to transfer to Lucent all of the assets and liabilities related to Lucent's operations, except that AT&T retained \$2,000 in customer accounts receivable. On April 2, 1996, AT&T obtained an additional 524,623,894 shares of Lucent's Common Stock. On April 10, 1996, Lucent issued 112,037,037 shares in an Initial Public Offering (the "IPO") for \$27 per share less underwriting discounts and commissions of \$1.05 per share. After the completion of the IPO, AT&T owned 82.4% of the outstanding shares of Lucent's Common Stock. During 1996, there were net asset additions and net liability reductions, aggregating \$252 from AT&T. On September 30, 1996, AT&T distributed to its shareowners of record as of September 17, 1996, all of its remaining interest in Lucent (the "Distribution").

BASIS OF PRESENTATION

On July 17, 1996, Lucent changed its year end from December 31 to September 30. The consolidated statements of income, cash flows and changes in shareowners' equity reflect the nine-month transition period ended September 30, 1996 and the historical calendar year results for 1995 and 1994. Lucent began accumulating retained earnings on February 1, 1996, the date on which AT&T began transferring to Lucent the assets and liabilities relating to Lucent's operations.

The consolidated financial statements for the years ended December 31, 1995 and 1994 reflect the results of operations, changes in shareowner's equity and cash flows, and the financial position as of December 31, 1995 of the business that was transferred to Lucent from AT&T in the Separation (the "Company Business") as if Lucent was a stand-alone entity for these periods. The 1995 and 1994 consolidated financial statements have been prepared using the historical basis in the assets and liabilities and historical results of operations related to the Company Business. The 1995 and 1994 consolidated financial statements also include an allocation of certain AT&T corporate headquarters assets, liabilities and expenses related to the business transferred to Lucent from AT&T in the Separation. Changes in additional paid-in capital and shareowner's net investment in 1995 and 1994 represent AT&T's contribution of its net investment after giving effect to the net income (loss) of Lucent plus net cash transfers to AT&T.

Management believes the allocations reflected in the 1995 and 1994 consolidated financial statements are reasonable; however, the costs of the corporate services allocated to Lucent are not necessarily indicative of the costs that would have been incurred if Lucent had performed these functions as a stand-alone company. The 1995 and 1994 financial statements may not necessarily reflect the consolidated results of Lucent's operations, financial position, changes in shareowner's equity or cash flows in the future or what they would have been had Lucent been a separate, stand-alone company during such periods.

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LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

ACQUISITION

In February 1996, Lucent acquired several manufacturing and other operations of certain subsidiaries of Philips Electronics NV ("Philips"), primarily in Germany and France, for \$234. The acquisition was accounted for using the purchase method of accounting and Philips' results have been included in Lucent's consolidated results of operations since February 1996.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include all majority-owned subsidiaries of Lucent. 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 accounting for long-term contracts, allowance for uncollectible accounts receivable, inventory obsolescence, product warranty, depreciation, employee benefit plans, 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.

CURRENCY TRANSLATION

For operations outside the United States that prepare financial statements in currencies other than the United States dollar, income, expense and cash flow amounts are translated at average exchange rates during the period, and assets and liabilities are translated at period-end exchange rates. These translation adjustments are included as a separate component of shareowners' equity.

REVENUE RECOGNITION

Revenue is generally recognized on the sales of products or services when the products are delivered or the services performed, all significant contractual obligations have been satisfied, and the collection of the resulting receivable is reasonably assured. Revenue from sales of software products is generally recognized upon product delivery, acceptance, and completion of all significant obligations. Rental revenues are recognized proportionately over the contract period. Revenues and estimated profits on long-term performance 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 identified 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.

DERIVATIVE FINANCIAL INSTRUMENTS

Lucent uses various financial instruments, including derivative financial instruments, for purposes other than trading. Lucent does not enter into derivative financial instruments for speculative purposes. Derivatives, used as part of Lucent's risk management strategy, are designated at inception as a hedge, and measured for effectiveness both at inception and on an ongoing basis. For qualifying foreign currency hedges the gains and losses are deferred, and recognized as adjustments of carrying amounts when the underlying hedged transaction is settled.

INCOME TAXES

Lucent's operations through September 30, 1996 will be included in the consolidated income tax returns filed by AT&T. Income tax expense in Lucent's consolidated financial statements has been calculated on a separate tax return basis.

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 (i.e., net realizable value). Cost includes material, labor and manufacturing overhead.

CONTRACTS IN PROCESS

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

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 10 to 15 years. Goodwill is 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 goodwill, a loss is recognized for the difference between the fair value and carrying value of the goodwill.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the 1996 presentation.

3. SUPPLEMENTARY FINANCIAL INFORMATION

SUPPLEMENTARY INCOME STATEMENT INFORMATION

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996	1995	Year Ended December 31, 1994

<S>	<C>	<C>	<C>
INCLUDED IN COSTS			
Amortization of software development costs	\$ 218	\$ 312	\$ 345
INCLUDED IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Amortization of goodwill	\$ 25	\$ 40	\$ 31
INCLUDED IN COSTS AND OPERATING EXPENSES			
Depreciation and amortization of property, plant and equipment	\$ 674	\$ 1,109	\$ 891
OTHER INCOME			
Interest income	\$ 71	\$ 44	\$ 24
Minority interests in earnings of subsidiaries	(21)	(20)	(14)
Net equity (losses) earnings from investments	(26)	(25)	21
Increase in cash surrender value of life insurance	35	40	30
Loss on foreign currency transactions	(4)	(26)	(48)
Miscellaneous -- net	41	151	70

Total other income -- net	\$ 96	\$ 164	\$ 83
=====			

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

SUPPLEMENTARY INCOME STATEMENT INFORMATION

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996	1995	Year Ended December 31, 1994

<S>	<C>	<C>	<C>
DEDUCTED FROM INTEREST EXPENSE			
Capitalized interest	\$ 14	\$ 14	\$ 7

</TABLE>

SUPPLEMENTARY BALANCE SHEET INFORMATION

<TABLE>

<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
INVENTORIES		
Completed goods	\$ 1,837	\$ 1,673
Work in process and raw materials	1,451	1,178
Inventories	\$ 3,288	\$ 2,851
PROPERTY, PLANT AND EQUIPMENT -- NET		
Land and improvements	\$ 275	\$ 273
Buildings and improvements	2,875	2,668
Machinery, electronic and other equipment	7,870	8,096
Total property, plant and equipment	11,020	11,037
Less: Accumulated depreciation and amortization	(6,333)	(6,699)
Property, plant and equipment -- net	\$ 4,687	\$ 4,338
OTHER CURRENT LIABILITIES		
Advance billings and customer deposits	\$ 1,202	\$ 398

</TABLE>

SUPPLEMENTARY CASH FLOW INFORMATION

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996	Year Ended December 31, 1995 1994	
<S>	<C>	<C>	<C>
Interest payments, net of amounts capitalized	\$209	\$303	\$274
Income tax payments	\$142	\$224	\$ 46

</TABLE>

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

4. BUSINESS RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of calendar 1995, a pretax charge of \$2,801 was recorded to cover restructuring costs of \$2,613 and asset impairment and other charges of \$188. Lucent's restructuring plans included the following items: restructuring of its 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 its Microelectronics interconnect and Paradyne businesses.

The 1995 business restructuring charge of \$2,613 included restructuring liabilities of \$1,774, asset impairments of \$497 resulting from restructuring activities, and \$342 of benefit plan losses. Benefit plan losses 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, 1996, the workforce has been reduced by approximately 11,400 people due to business restructuring. In addition, approximately 1,000 employees left Lucent's workforce as part of the sale of Paradyne. 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 70% of the total expected employee separations will be complete by December 1996. The charge also included costs associated with early termination of building leases and asset write-downs as part of the plan to sell certain businesses and restructure its operations.

The following table displays a rollforward of the liabilities for business restructuring from December 31, 1994 to September 30, 1996:

<TABLE>
<CAPTION>

Type of Cost	1995				December 31, 1995 Balance
	December 31, 1994 Balance	Additions	Other	Usage	
<S>	<C>	<C>	<C>	<C>	<C>
Employee separation	\$ 52	\$1,167	\$ -	\$ -	\$1,219
Facility closing	70	202	-	-	272
Other	11	405	-	-	216
Total	\$133	\$1,774	\$ -	\$ -	\$1,907

</TABLE>

<TABLE>
<CAPTION>

Type of Cost	1996				September 30, 1996 Balance
	December 31, 1995 Balance	Additions	Other	Usage	
<S>	<C>	<C>	<C>	<C>	<C>
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

</TABLE>

* The 1996 net reduction of \$98 in the above table is associated principally with employee separations. Additionally, \$105 of non-recurring and other charges, associated principally with the separation from AT&T, were recorded during 1996.

The December 31, 1994 business restructuring balance included reserves primarily for real estate. As of September 30, 1996, \$43 remained of the \$133 December 31, 1994 balance. The majority of this balance is related to excess space at certain locations that will not be utilized over the remaining terms of the leases.

Management believes that the remaining reserves for business restructuring of \$1,289 at September 30, 1996 are adequate to complete its plan.

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During the nine months ended September 30, 1996, cash payments of \$456 and noncash related charges of \$64 primarily associated with asset write-offs were charged against the business restructuring reserves. The September 30, 1996 remaining balance will result in future cash payments over the next two years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

5. 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:

	NINE MONTHS ENDED SEPTEMBER 30, 1996		Year Ended December 31, 1995 1994	
<S>	<C>	<C>	<C>	<C>
U.S. federal statutory income tax rate	35%	35%	35%	35%
Federal income tax provision (benefit) at statutory rate	\$ 128	\$ (398)	\$ 274	
State and local income taxes, net of federal income tax effect	5	(57)	23	
Amortization of intangibles	-	29	12	
Foreign earnings and dividends taxed at different rates	15	140	36	
Research credits	(18)	(3)	(27)	
Other differences -- net	13	18	(16)	
Provision (benefit) for income taxes	\$ 143	\$ (271)	\$ 302	
Effective income tax rate	39.0%	23.8%	38.5%	

</TABLE>

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

	NINE MONTHS ENDED SEPTEMBER 30, 1996		Year Ended December 31, 1995 1994	
<S>	<C>	<C>	<C>	<C>
INCOME (LOSS) BEFORE INCOME TAXES				
United States	\$ 101	\$ (1,253)	\$405	
Foreign	266	115	379	
	\$ 367	\$ (1,138)	\$784	
PROVISION (BENEFIT) FOR INCOME TAXES				
CURRENT				
Federal	\$ 242	\$199	\$ (119)	
State and local	53	42	(40)	
Foreign	98	141	123	
	393	382	(36)	

DEFERRED			
Federal	(198)	(523)	267
State and local	(45)	(130)	76
Foreign	(6)	1	(4)

	(249)	(652)	339
Deferred investment tax credits	(1)	(1)	(1)

Provision(benefit) for income taxes	\$ 143	\$ (271)	\$302
=====			

</TABLE>

31

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

As of September 30, 1996, Lucent had foreign net operating loss carryforwards (tax effected) of \$65, which expire primarily after 2000.

The components of deferred tax assets and liabilities at September 30, 1996 and December 31, 1995 are as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
	<C>	<C>

<S>		
CURRENT DEFERRED INCOME TAX ASSETS:		
Employee pensions and other benefits	\$ 584	\$ 516
Business restructuring	317	519
Reserves and allowances	589	537
Valuation allowance	(38)	(117)
Other	182	143

Total current deferred income tax assets	1,634	1,598

Current deferred income tax liabilities	17	116

Net current deferred income tax assets	\$ 1,617	\$ 1,482
=====		
LONG-TERM DEFERRED INCOME TAX ASSETS:		
Employee pensions and other benefits, net	\$ 1,317	\$ 1,425
Business restructuring	101	267
Net operating loss/credit carryforwards	67	28
Reserves and allowances	69	9
Valuation allowance	(170)	(25)
Other	371	270

Total long-term deferred income tax assets	1,755	1,974

LONG-TERM DEFERRED INCOME TAX LIABILITIES:		
Property, plant and equipment	518	738
Other	258	364

Total long-term deferred income tax liabilities	776	1,102

Net long-term deferred income tax assets	\$ 979	\$ 872
=====		

</TABLE>

Lucent has not provided for United States federal income taxes or foreign withholding taxes on \$1,289 of undistributed earnings of its non-United States subsidiaries as of September 30, 1996, since these earnings are intended

to be reinvested indefinitely. It is not practicable to determine the amount of applicable taxes that would be incurred if any of such earnings were repatriated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

6. DEBT OBLIGATIONS

DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year consists of the following:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
Commercial paper	\$ 2,225	\$ -
Debt sharing agreement	-	3,842
Long-term debt	59	-
Other	79	49

Total debt maturing within one year	\$ 2,363	\$3,891
=====		
WEIGHTED AVERAGE INTEREST RATES		
Commercial paper	5.4%	n/a
Debt sharing agreement	n/a	6.8%
Long-term debt	7.1%	n/a
=====		

</TABLE>

Lucent had revolving credit facilities at September 30, 1996 aggregating \$6,000 (a portion of which is used to support Lucent's commercial paper program), and \$430 with domestic and foreign lenders, respectively. Of such amounts, \$6,000 and \$267, respectively, were available at September 30, 1996.

LONG-TERM DEBT

Long-term debt consists of the following:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<C>	<C>	<C>
6.90% notes due July 15, 2001	\$ 750	\$ -
7.25% notes due July 15, 2006	750	-
Long-term lease obligations	4	-
Other	201	123
Less: Unamortized discount	12	-

Total long-term debt	1,693	123
Less: Amounts maturing within one year	59	-

Net long-term debt	\$1,634	\$ 123
=====		

</TABLE>

Lucent filed a registration statement on Form S-3, which became effective on April 3, 1996, to register the offering from time to time of up to \$3,500 of debt securities. On July 22, 1996, Lucent issued 6.90% notes due July

15, 2001 and 7.25% notes due July 15, 2006 under such shelf registration. Interest on the notes is payable on January 15 and July 15 each year. The notes are not redeemable prior to maturity. The notes were issued to pay down outstanding commercial paper.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

This table shows the maturities, by year, of the \$1,693 in total long-term debt obligations:

<TABLE>
<CAPTION>

	September 30,					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$59	\$33	\$32	\$20	\$752	\$797

</TABLE>

DEBT SHARING AGREEMENT

Lucent's December 31, 1995 and 1994 consolidated financial statements include an allocation of AT&T's consolidated debt and the related interest expense. The allocation was based on the capital structure of Lucent as anticipated at the IPO closing date of April 10, 1996. An allocation methodology was used to reflect the capital structure through each historic period presented based on cash flows for those periods, adjusted for interest expense. To formalize the allocations, Lucent and AT&T entered into debt sharing agreements effective from January 1, 1991 until April 10, 1996.

In the second quarter of 1996, the amount outstanding under the debt sharing agreements was replaced with commercial paper issued by AT&T and assumed by Lucent on the IPO closing date. In July 1996, Lucent issued notes totaling \$1,500 to pay down a portion of the commercial paper. Lucent expects that, over time, it may replace all or part of the outstanding commercial paper with short- or long-term borrowings, as market conditions permit. The amount, timing and pricing of such debt issues are uncertain.

Interest expense under the debt sharing agreement was \$58 for the nine months ended September 30, 1996 and \$237 and \$203 for the years ended December 31, 1995 and 1994, respectively. For each respective period, interest expense was determined based on a blend of AT&T's short-term and long-term weighted average interest rates. Lucent believes these allocations are reasonable estimates of the cost of financing Lucent's assets and operations.

7. EMPLOYEE BENEFIT PLANS

Lucent's financial statements reflect the costs experienced for its employees and retirees while included in the AT&T plans. Effective October 1, 1996, Lucent assumed responsibility for employee benefit plans covering its active employees and retirees.

PENSION PLANS

The majority of Lucent's employees participate in AT&T's noncontributory defined benefit plans. Benefits for management employees are based principally on career-average pay. 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. AT&T's Group Pension Trust (the "Trust") assets will be divided between the master pension trusts for qualified pension plans of Lucent and AT&T so that each plan's participating master pension trust receives the legally required amount to meet the minimum requirements set forth in applicable benefit and tax regulations and a sufficient amount of additional assets to ensure, at October 1, 1996, compliance with AT&T's previously established pension funding policy. Any remaining Trust assets in excess of the funding policy level will be divided equally and assigned to the master pension trusts of Lucent and AT&T. As of September 30, 1996, subject to final adjustment, the projected benefit obligation and plan assets to be transferred to Lucent are \$20,767 and \$29,250, respectively. The effective date of the transfer was October 1, 1996. Assets, obligations and expenses were previously estimated for 1995 and 1994 using the same methodology.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

The information that follows relates to the entire AT&T noncontributory defined benefit plans. The following table shows the funded status of the AT&T noncontributory defined benefit pension plans:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
Actuarial present value of accumulated benefit obligation:		
Vested	\$30,746	\$32,726
Nonvested	2,579	3,326

Accumulated benefit obligation	33,325	36,052

Plan assets at fair value	49,147	47,634
Less: actuarial present value of projected benefit obligation	35,087	37,989

Excess of assets over projected benefit obligation	14,060	9,645
Unrecognized prior service costs	1,980	2,297
Unrecognized transition asset	(2,586)	(2,961)
Unrecognized net gain	(8,547)	(4,528)
Net minimum liability of nonqualified plans	(100)	(166)

Prepaid pension costs	\$4,807	\$4,287
=====		

</TABLE>

The assumptions used in determining the actuarial present value of projected benefit obligations were:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
Weighted average discount rate	8.0%	7.0%
Rate of increase in future compensation levels	5.0%	5.0%
=====		

</TABLE>

Plan assets consist primarily of listed stocks (including \$174 and \$259

of AT&T common stock at September 30, 1996 and December 31, 1995, respectively, and \$9 of Lucent common stock at September 30, 1996), corporate and governmental debt, cash and cash equivalents, and real estate investments.

The prepaid pension costs shown above include pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets of AT&T. As of September 30, 1996 and December 31, 1995, AT&T had a prepaid pension asset of \$4,958 and \$4,664, respectively. Lucent's share of the prepaid pension asset as of September 30, 1996 and December 31, 1995 was \$2,828 and \$2,522, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

Pension cost was computed using the projected unit credit method and assumed a long-term rate of return on plan assets of 9.0% in 1996, 1995 and 1994. The components of AT&T's pension cost are shown in this table for the periods:

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996	Year Ended December 31, 1995 1994	
<S>	<C>	<C>	<C>
Service cost - benefits earned during the period	\$ 565	\$ 570	\$ 669
Interest cost on projected benefit obligation	1,959	2,551	2,400
Amortization of unrecognized prior service costs	204	280	230
Expected return on plan assets*	(2,677)	(3,318)	(3,260)
Amortization of transition asset	(376)	(500)	(501)
Charges (credits) for special pension options**	(72)	213	-
Net pension credit	(\$397)	(\$204)	(\$462)

</TABLE>

* The actual return on plan assets was \$3,604 for the nine months ended September 30, 1996, and was \$9,484 and \$582 for the calendar years ended in 1995 and 1994, respectively.

** Charges and credits for early retirement options and curtailments.

Lucent recorded a net pension credit related to the AT&T plans of \$265, \$135 and \$288 in the nine months ended September 30, 1996 and the calendar years 1995 and 1994, respectively. The 1995 pension credit was net of a charge of \$97 for a curtailment loss.

Lucent is amortizing over approximately 16 years the unrecognized transition asset related to the adoption of Statement of Financial Accounting Standards ("SFAS") No.87, "Employers' Accounting for Pensions" in 1986. Prior service costs are amortized primarily on a straight-line basis over the average remaining service period of active employees.

POSTRETIREMENT BENEFITS

The majority of Lucent's employees and retirees participate in AT&T's benefit plans for retirees, which include health care benefits, life insurance coverage and telephone concessions. Effective October 1, 1996, Lucent established separate postretirement benefit plans for its employees and retirees. Postretirement benefit assets will be transferred from AT&T to Lucent, pro rata, on the basis of the present value of future benefit obligations of the applicable plan. As of September 30, 1996, subject to final adjustment, the accumulated postretirement benefit obligation and the assets to be transferred were \$7,297 and \$3,610, respectively. The effective date of the transfer was October 1, 1996. Assets, obligations and expenses were previously estimated for

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The following information relates to the entire AT&T postretirement benefit plan. The following table shows the funded status of AT&T's postretirement benefit plans reconciled with the amounts recognized in AT&T's consolidated balance sheets as of:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
Accumulated postretirement benefit obligation:		
Retirees	\$7,811	\$8,250
Fully eligible active plan participants	1,385	1,453
Other active plan participants	2,084	2,869
Accumulated postretirement benefit obligation	11,280	12,572
Less:		
Plan assets at fair value	5,022	4,704
Unfunded postretirement obligation	6,258	7,868
Less:		
Unrecognized prior service costs	634	771
Unrecognized net gain	(1,719)	(292)
Accrued postretirement benefit obligation	\$7,343	\$7,389

</TABLE>

Lucent's share of the accrued postretirement benefit obligation as of September 30, 1996 and December 31, 1995, was \$4,431 and \$4,635, respectively.

The assumptions used in determining the postretirement benefit obligations were:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	December 31, 1995
<S>	<C>	<C>
Weighted average discount rate	8.0%	7.0%
Assumed rate of increase in the per capita cost of covered health care benefits	5.9%	6.1%

</TABLE>

Plan assets consist primarily of listed stocks (including \$37 of AT&T common stock at September 30, 1996 and December 31, 1995, and \$12 of Lucent common stock at September 30, 1996), corporate and governmental debt, cash and cash equivalents, and life insurance contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

The components of AT&T's net postretirement benefit cost are shown in

this table for the periods through:

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996		Year Ended December 31, 1995 1994	
<S>	<C>	<C>	<C>	<C>
Service cost - benefits earned during the period	\$ 101	\$ 98	\$ 108	
Interest cost on accumulated postretirement benefit obligation	625	888	852	
Expected return on plan assets*	(261)	(298)	(243)	
Amortization of unrecognized prior service costs	85	67	14	
Amortization of net loss (gain)	14	(14)	1	
Charge (credit) for special options	(8)	11	-	
Net postretirement benefit cost	\$ 556	\$ 752	\$ 732	

</TABLE>

* A 9% long-term rate of return on plan assets was assumed for 1996, 1995 and 1994. The actual return on plan assets was \$305 for the nine months ended September 30, 1996 and was \$962 and \$(30) for the calendar years ended 1995 and 1994, respectively.

Lucent recorded postretirement benefit expense related to the AT&T plans of \$329, \$468 and \$461 in the nine months ended September 30, 1996 and the calendar years 1995 and 1994, respectively.

AT&T assumed that growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1996 to 4.8% by the year 2005 and then remain level. This assumption has a significant effect on the amounts reported. Increasing the assumed trend rate by 1% in each year would increase AT&T's accumulated postretirement benefit obligation as of September 30, 1996 by \$517 and the interest and service cost by \$49 for the period year then ended. Lucent's share of these increases would be \$336 and \$31 for the accumulated postretirement benefit obligation and the interest and service cost, respectively.

SAVINGS PLANS

AT&T's savings plans' assets and liabilities related to Lucent employees and retirees were transferred to Lucent effective October 1, 1996. 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 \$131 for the nine months ended September 30, 1996 and \$196 and \$178 for the calendar years ended 1995 and 1994, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

In March 1990, AT&T established a leveraged Employee Stock Ownership Plan ("ESOP") for its existing nonmanagement savings and security plan and issued 13.4 million shares to the ESOP trust. Cash contributions have been determined based on the ESOP's total debt service less dividends paid on ESOP shares. As part of the Separation, AT&T transferred to Lucent its portion of the ESOP obligation. As of September 30, 1996, Lucent had established a separate leveraged ESOP trust and the Lucent long-term savings and security plan for nonmanagement employees (the "LTSS Plan"). The LTSS Plan allows nonmanagement employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. Under the LTSS Plan, Lucent matches a percentage of the employee contributions, up to certain limits, with Lucent's common stock provided through the ESOP. As of September 30, 1996, Lucent had a remaining guaranteed ESOP obligation of \$106, reported as debt and as a reduction in shareowners' equity. As of September 30, 1996, the ESOP contained shares of Lucent and AT&T common stock. In November 1996, all AT&T common stock within the ESOP was converted to Lucent common stock (the "Conversion"). Assuming the effect of the Conversion as of September 30, 1996, the ESOP contained 6.2 million shares of Lucent's common stock. Of the 6.2 million shares, 3.9 million have been allocated to the LTSS Plan and 2.3 million were unallocated. As of September 30, 1996, the unallocated shares had a fair value of \$105.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

8. SEGMENT INFORMATION

INDUSTRY SEGMENT

Lucent operates in the global telecommunications 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.

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,		Year Ended December 31,
	1996	1995	1994
<S>	<C>	<C>	<C>
REVENUES			
United States	\$ 13,334	\$ 17,826	\$ 17,207
Other geographic areas	2,525	3,587	2,558
	\$ 15,859	\$ 21,413	\$ 19,765
=====			
TRANSFERS BETWEEN GEOGRAPHIC AREAS (ELIMINATED IN CONSOLIDATION)			
United States	\$ 1,353	\$ 1,081	\$ 1,338
Other geographic areas	648	911	1,041
	\$ 2,001	\$ 1,992	\$ 2,379
=====			
OPERATING INCOME (LOSS)			
United States	\$ 940	\$ (679)	\$ 1,241
Other geographic areas	(108)	(67)	(5)
Corporate, eliminations and nonoperating	(465)	(392)	(452)
	\$ 367	\$ (1,138)	\$ 784
=====			
ASSETS			
United States	\$ 17,807	\$ 15,043	\$ 14,114
Other geographic areas	4,049	4,696	3,493
Corporate assets	2,745	738	696
Eliminations	(1,975)	(755)	(963)
	\$ 22,626	\$ 19,722	\$ 17,340
=====			

</TABLE>

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 23.1% of consolidated revenues for the nine months ended September 30, 1996, and 23.3% and 19.1% for the calendar years ended 1995 and 1994, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

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 large customers may purchase more of any particular system or product line. 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.

9. 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. 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 maximum potential loss may exceed the amount recognized in the balance sheet. 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 represented by the amount drawn and outstanding on those instruments. The contract or notional amounts of these instruments reflect the extent of involvement Lucent has in particular classes of financial 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 the senior management of Lucent. 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, 1996 and December 31, 1995, 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. Management believes that the reserves for losses are adequate.

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.

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 the senior management of Lucent. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

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. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The use of derivative financial instruments allows Lucent to reduce its exposure to the risk that the eventual dollar 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. The foreign exchange contracts are designated for firmly committed or forecasted purchases and sales. These transactions are generally expected to occur in less than one year for firmly committed sales and purchases. These gains and losses are deferred in other current assets and liabilities. Deferred gains and losses are recognized as adjustments to the underlying hedged transactions when the future sales or purchases are recorded, or immediately, if the commitment is canceled. At September 30, 1996 and December 31, 1995, deferred gains and losses are not material to the consolidated financial statements. Gains and losses on foreign 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 dollars 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.

<TABLE>

<CAPTION>

FINANCIAL INSTRUMENT	VALUATION METHOD
Short-term debt	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	*

</TABLE>

* 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996		December 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
ON BALANCE SHEET INSTRUMENTS				
Liabilities:				
Long-term debt	\$1,630	\$1,638	\$ 123	\$ 123

</TABLE>

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996		December 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
DERIVATIVES AND OFF BALANCE SHEET INSTRUMENTS				
Assets:				
Foreign currency exchange contracts	\$ 14	\$ 17	\$ 16	\$ 11
Letters of credit	-	1	-	2
Liabilities:				
Foreign currency exchange contracts	\$ 11	\$ 14	\$ 10	\$ 15
Letters of credit	-	-	-	-

</TABLE>

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

<TABLE>
<CAPTION>

	SEPT. 30, 1996	Dec. 31, 1995	Amounts Drawn Down and Outstanding	
	CONTRACT/NOTIONAL AMOUNT	Contract/Notional Amount	SEPT. 30, 1996	DEC. 31, 1995
<S>	<C>	<C>	<C>	<C>
Foreign exchange forward contracts:				
Dutch guilders	\$ 128	\$ 324		
Deutsche marks	228	131		
Japanese yen	436	304		
Other	365	327		
	1,157	1,086		
Foreign exchange option contracts	109	4		
Letters of credit	847	659		
Commitments to extend credit	156	16	\$ 7	\$ 13
Guarantees of debt	494	598	346	296

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

10. STOCK COMPENSATION PLANS

During 1996, 1995 and in prior years, certain employees of Lucent were granted stock awards under the AT&T Long-Term Incentive Program ("AT&T LTIP"). Such awards consisted of stock options, performance awards, restricted stock awards and other stock unit awards. During 1996 Lucent's employees were also eligible to participate in the AT&T Employee Stock Purchase Plan ("ESPP").

Effective October 1, 1996, awards outstanding under the AT&T LTIP that were held by Lucent employees were replaced by substitute awards under the Lucent Technologies Inc. Long-Term Incentive Program ("Lucent LTIP"). The Lucent LTIP provides for the grant of stock options, stock appreciation rights, performance awards, restricted stock awards and other stock unit awards. Generally, stock options have a ten-year term and vest within three years of grant. Subject to customary anti-dilution adjustments and certain exceptions, the total number of shares of common stock authorized for grant under the Lucent LTIP in each calendar year is 1.2% of the total outstanding shares of common stock as of the first day of such year for which the Lucent LTIP is in effect (April 10, 1996 for calendar year 1996). The substitute awards do not reduce the shares available for grant under the Lucent LTIP.

The substitute stock options and other awards have the same vesting provisions, option periods, and other terms and conditions as the AT&T options and awards they replaced. The substitute stock options had the same ratio of the exercise price per share to the market value per share, and the same aggregate difference between market value and exercise price as the AT&T stock options.

Lucent has adopted the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Compensation expense was immaterial for 1996 and 1995. If Lucent had elected to recognize compensation cost for the AT&T LTIP and the ESPP based on the fair value at the grant dates for awards under those plans (including the substitute awards), consistent with the method prescribed by SFAS No. 123, net income(loss) and earnings(loss) per share would have been changed to the pro forma amounts indicated below:

		NINE MONTHS ENDED SEPTEMBER 30, 1996	Year Ended December 31, 1995
<S>	<C>	<C>	<C>
Net income (loss)	As reported	\$224	\$(867)
	Pro forma	\$202	\$(870)
Earnings (loss)			
per share	As reported	\$0.38	\$(1.65)
	Pro forma	\$0.34	\$(1.66)

</TABLE>

Note: The pro forma disclosures shown are not representative of the effects on net income and earnings per share in future years because the nine months ended September 30, 1996, includes an incremental fair value of the Lucent stock options that were substituted for AT&T stock options. Pro forma net income and earnings per share disclosures for the nine months ended September 30, 1996, include a \$10 charge to income and a \$0.02 reduction in earnings per share, respectively, related to the incremental fair value of all vested options. The incremental value was determined by comparing the value of the AT&T options as of September 16, 1996, the last day on which Lucent employees were able to exercise their AT&T options prior to the substitution, with the value of the replacement options that were granted on October 1, 1996. The incremental fair value of nonvested options will be included in pro forma net income and earnings per share in the remaining years of the vesting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

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The fair value of AT&T 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 for 1996 and 1995: dividend yield of 2.4%; expected volatility of 19.4%; a risk free interest rate of 6.4%; and an expected holding period of five years. The incremental fair value of Lucent options substituted for the AT&T options on October 1, 1996, used to compute pro forma net income and earnings per share disclosures was determined using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0.75%; expected volatility of 22.4%; a risk free interest rate of 6.1%; and an expected holding period of 4.5 years, adjusted to reflect the remaining period to maturity of the substituted options.

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 subcommittee ("Committee") of the Corporate Governance and Compensation Committee of Lucent's Board of Directors, 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. Stock Appreciation Rights ("SARs") may be granted to participants either alone or in addition to stock options and may, but need not be, related to a specific option. The provisions of SARs need not be the same with respect to each recipient.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

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Presented below is a summary of the status of the AT&T fixed stock options held by Lucent's employees, and the related transactions for the nine months ended September 30, 1996 and the year ended December 31, 1995. Also shown are Lucent's fixed stock options which were substituted for the AT&T options on October 1, 1996:

<TABLE>

<CAPTION>

NINE MONTHS ENDED

Year Ended

SEPTEMBER 30,
1996

December 31,
1995

FIXED STOCK OPTIONS	SHARES (000's)	WEIGHTED AVERAGE EXERCISE PRICE	Shares (000's)	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
AT&T options outstanding at beginning of period	6,392	\$47.44	4,824	\$42.66
Granted	1,690	65.81	2,046	55.08
Exercised	(183)	38.27	(476)	35.86
Forfeited/Expired	(3)	63.18	(2)	38.75
AT&T options outstanding at end of period	7,896	\$51.36	6,392	\$47.44
Lucent options substituted for AT&T options, and outstanding at October 1, 1996	9,786	\$41.43	n/a	n/a
Lucent options exercisable at October 1, 1996	5,336	\$35.35	n/a	n/a

</TABLE>

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, respectively.

The following table summarizes the status of Lucent's fixed stock options, substituted for AT&T options, outstanding and exercisable at October 1, 1996:

<TABLE>
<CAPTION>

Range of Exercise Prices	Shares (000's)	Stock Options Outstanding		Stock Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$16.64 to \$24.19	1,136	3.4 Years	\$20.39	1,136	\$20.39
\$24.20 to \$36.29	1,192	5.0 Years	31.23	1,192	31.23
\$36.30 to \$54.61	7,458	6.2 Years	44.33	3,008	41.76
Total	9,786			5,336	

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

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

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
AT&T shares granted (000's)	262	295
Weighted average market value of shares granted during the period	\$66.24	\$56.46

</TABLE>

11. TRANSACTIONS AND AGREEMENTS WITH AT&T

For the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, Lucent had \$1,970, \$2,119 and \$2,137, respectively, of revenues from AT&T. At September 30, 1996 and December 31, 1995, the related receivables amounted to \$596 and \$291, respectively.

AT&T has allocated general corporate overhead expenses amounting to \$372 and \$358 for the years ended December 31, 1995 and 1994, respectively. There were no such material expenses allocated to Lucent for the nine months ended September 30, 1996. Additionally, Lucent incurred expenses for long distance services provided by AT&T of \$74, \$80 and \$93 for the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, respectively. Amounts payable to AT&T were \$698 and \$25 at September 30, 1996 and December 31, 1995, respectively, including current income taxes payable to AT&T as of September 30, 1996 of \$183.

In connection with the Separation, AT&T prepaid \$500 to Lucent which will be applied to accounts receivable from AT&T due and payable on or after January 1, 1997 for the purchase of products, services and licensed materials from Lucent.

Rights, title and interest in certain lease receivables were sold at a discount to AT&T's finance subsidiary, AT&T Capital Corporation. Lucent acts as an agent to bill and collect such receivables. Lucent has agreed to repurchase certain of these lease receivables in the event of a default thereon. At September 30, 1996 and December 31, 1995, \$162 and \$206, respectively, of such receivables had recourse to Lucent in the event of default.

In connection with the Separation and Distribution, Lucent, AT&T and NCR Corporation ("NCR"), a wholly owned subsidiary of AT&T, 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 which are summarized below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

SEPARATION AND DISTRIBUTION AGREEMENT

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 related 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.

FEDERAL, STATE AND LOCAL TAX ALLOCATION AGREEMENTS

Lucent entered into agreements with AT&T and its other domestic subsidiaries

that apply to income taxes attributable to the period from Lucent's incorporation through the Distribution. The agreements set forth principles to be applied in allocating tax liability among those entities filing returns on a consolidated or combined basis.

TAX SHARING AGREEMENT

Lucent entered into an agreement with AT&T and NCR that governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax periods ending or deemed to end upon the Distribution. Under such agreement, adjustments to taxes that are clearly attributable to the business of one party will be borne solely by that party. Adjustments to all other tax liabilities and benefits generally will be borne 75% by AT&T, 22% by Lucent and 3% by NCR.

GENERAL PURCHASE AGREEMENT

Lucent and AT&T entered into the General Purchase Agreement and various related and supplemental agreements that govern transactions pursuant to which Lucent provides products, licensed materials and services to AT&T and certain designated AT&T affiliates. AT&T commits therein that payments made to Lucent (commencing January 1, 1996) for purchases of products, licensed materials and services by AT&T and such designated affiliates will total at least \$3,000 cumulatively for the calendar years 1996, 1997 and 1998. AT&T purchased \$1,970 of products, licensed materials and services from Lucent during the nine months ended September 30, 1996. If the \$3,000 commitment is not fulfilled by December 31, 1998, interest is payable on the shortfall until the entire purchase commitment is met. Such interest is the sole remedy for any shortfall.

OTHER AGREEMENTS

In addition, Lucent is obligated under a purchase agreement with NCR to purchase at least \$150 of products and services cumulatively for the calendar years 1996, 1997 and 1998.

INTERIM SERVICES AND SYSTEMS REPLICATION AGREEMENT; REAL ESTATE SHARING

Lucent, AT&T and NCR entered into an agreement governing the provision by which each party agreed to provide to one or more of the others on an interim basis certain data processing and telecommunications services and certain corporate support services at specified terms. Specified charges are generally intended to allow the providing company to recover the fully allocated direct costs of providing the services, plus all out-of-pocket costs and expenses, but without any profit. Such agreement also provides for the replication and transfer of certain computer systems on specified terms. In 1996, Lucent recognized approximately \$120 of net expenses associated with this agreement. With limited exceptions, these interim services are not expected to extend beyond January 1, 1998.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

AT&T, Lucent and NCR also entered into various lease and sublease agreements for the sharing of certain facilities for a transitional period on commercial terms. In the case of owned real estate to be leased, the lease terms are up to three years, except that a limited number of leases may be terminated on 90 days notice by the tenant. In the case of subleases or sub-subleases of property, the lease term will generally coincide with the remaining term of the primary lease or sublease, respectively.

12. 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 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, 1996 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, 1996 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 forty-six 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, 1996 cannot be determined.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

OTHER CONTINGENCIES

One of Lucent's multi-year contracts is with Pacific Bell for the provision of a broadband network based on hybrid fiber-coaxial cable technology. In July 1996, Lucent and Pacific Bell agreed to modify the terms of the contract so as to resolve issues and potential claims which may have arisen due to implementation difficulties and cost overruns under the contract. Lucent's consolidated financial statements include reserves to reflect such contract modifications. Lucent will continue to assess the adequacy of these reserves.

LEASE COMMITMENTS

Lucent leases land, buildings and equipment under agreements that expire in various years through 2014. Rental expense under operating leases was \$182 for the nine months ended September 30, 1996, and \$209 and \$183 for the years ended December 31, 1995 and 1994, respectively. The table below shows the future minimum lease payments due under noncancelable operating leases at September 30,

1996. Such payments total \$768.

<TABLE>
<CAPTION>

	Fiscal Year Ended September 30,					
	1997	1998	1999	2000	2001	Later Years
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating leases	\$170	\$147	\$123	\$99	\$73	\$156

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

13. QUARTERLY INFORMATION (UNAUDITED)

<TABLE>
<CAPTION>

	FIRST	SECOND	THIRD	FOURTH(1)	TOTAL(1)
<S>	<C>	<C>	<C>	<C>	<C>
Nine Months Ended September 30, 1996					
Revenues	\$4,577	\$5,364	\$5,918	n/a	\$15,859
Gross margin	1,824	2,170	2,575	n/a	6,569
Net income(loss)	(103)	72	255	n/a	224
Earnings(loss) per weighted average share(2)	\$ (0.20)	\$ 0.11	\$ 0.40	n/a	\$ 0.38
Dividends per share	0.00	0.075	0.075	n/a	0.15
Stock price:(4)					
High	n/a	39 1/4	45 7/8	n/a	n/a
Low	n/a	29 3/4	30 5/8	n/a	n/a
Quarter-end close	n/a	37 7/8	45 7/8	n/a	n/a
1995 Calendar Year					
Revenues	\$4,159	\$ 5,083	\$4,744	\$ 7,427	\$21,413
Gross margin	1,850	2,251	2,042	2,325	8,468
Net income(loss)	(22)	159	13	(1,017)	(867)
Earnings(loss) per weighted average share(3)	\$ (0.04)	\$ 0.30	\$ 0.02	\$ (1.93)	\$ (1.65)
Dividends per share	0.00	0.00	0.00	0.00	0.00

</TABLE>

- (1) 1995 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.
- (2) 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.
- (3) 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.
- (4) Obtained from the Composite Tape.

Pro forma earnings(loss) per share was calculated by dividing the net income(loss) by the 636,661,931 shares that were outstanding on April 10, 1996 subsequent to the IPO of 112,037,037 shares and gives no effect to the use of proceeds from the IPO. Amounts calculated are as follows:

<TABLE>
<CAPTION>

	FIRST	SECOND	THIRD	FOURTH	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Nine Months Ended September 30, 1996					
Pro forma earnings(loss) per share	\$ (0.16)	\$ 0.11	\$ 0.40	n/a	\$ 0.35
1995 Calendar Year					
Pro forma earnings(loss) per share	\$ (0.03)	\$ 0.25	\$ 0.02	\$ (1.60)*	\$ (1.36)*

</TABLE>

* See Note (1) above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LUCENT TECHNOLOGIES INC. AND SUBSIDIARIES

(Dollars In Millions, Except Per Share Amounts)

14. SUBSEQUENT EVENTS

COMMITMENTS

Lucent has entered into a credit agreement with Sprint Spectrum LP to provide long-term financing of \$1,800 for its purchase of equipment and services from Lucent for its nationwide personal communication services ("PCS") wireless network. It is expected that most of the financing under the credit agreement will be utilized by December 31, 1998. Loans made under this credit agreement defer any principal payment for up to four years. Repayment of principal will occur over a subsequent five-year period. Payment of quarterly interest on each borrowing may be deferred at the borrower's option for up to two years. Lucent is currently discussing with financial institutions potential alternatives to sell loans it may make under the credit agreement, which will depend, among other things, on market conditions and requirements at the time. The credit agreement provides for certain restrictive covenants applicable to the borrower, and for a pledge of the equity ownership of the borrower's affiliates who will hold the PCS radio licenses and title to the equipment purchased with the financing (shared jointly with other creditors); transfer of control of PCS licenses is subject to Federal Communications Commission approval.

BENEFIT PLANS

SPECIAL OWNERSHIP GRANT

Lucent's Board of Directors approved a special plan under which each employee was awarded 100 fixed stock options effective October 1, 1996. The options vest in three years and will be exercisable for a term of ten years from the date of the grant. The exercise price was determined by the average of Lucent's high and low per share trading price on the New York Stock Exchange on the date of the grant.

EMPLOYEE STOCK PURCHASE PLAN

Lucent's Board of Directors approved the Lucent Technologies Inc. 1996 Employee Stock Purchase Plan (the "Plan"), which gives employees of Lucent, or subsidiaries designated by the Employee Stock Purchase Plan Committee, the opportunity to purchase shares of Lucent's common stock through payroll deductions beginning on October 1, 1996, and ending on June 30, 2001. Employees can elect to participate in the Plan by designating from 1% to 10% of eligible compensation to be deducted from pay. On the date of exercise, which is the last day of each month that Lucent's stock is traded on the New York Stock Exchange, the per share purchase price will be 85% of the average high and low per-share trading price of Lucent's common stock on the New York Stock Exchange on that date. The shares may be newly issued shares, treasury shares or shares bought in the market. The amount that may be offered pursuant to this Plan is 50 million shares.

INVESTOR INFORMATION

Corporate Headquarters
 Lucent Technologies
 600 Mountain Avenue
 Murray Hill, NJ 07974
 1-888-4LUCENT

Shareowners Meeting
 The First Lucent Shareowners Meeting will assemble at
 10 a.m. on Feb. 19, 1997, in the Meadowlands Exposition
 Center, 355 Plaza Drive, Secaucus, NJ 07094.

Shareowner Services
 Questions about stock-related matters should be directed
 to Lucent's shareowner services and transfer agent,
 The Bank of New York, at 1-888-LUCENT6, or by writing to

Lucent Technologies
 c/o The Bank of New York
 P.O. Box 11009
 Church Street Station
 New York, NY 10286-1009

Shareowners can send inquiries electronically. The Bank of
 New York's e-mail address is
 lu-shareholders-svcs@email.bony.com

Persons outside the U.S. may call:
 201-845-1430

The Bank of New York address to which banks and brokers
 may deliver certificates for transfer is:
 101 Barclay Street
 New York, NY 10007

To hear information or ask questions about Lucent's Products
 and Services, call our special toll-free number:
 1-888-4LUCENT

Dividend Reinvestment Plan
 The Buy Direct (SM) dividend reinvestment and stock purchase
 plan provides owners of common stock a convenient way to
 purchase additional shares. You may write or call
 The Bank of New York for a plan brochure and an
 enrollment form

(SM) Buy Direct is a service mark of The Bank of New York

Stock Data
 Lucent Technologies (ticket symbol "LU") is listed on the
 New York Stock Exchange.

Shares outstanding as of Oct. 1, 1996
 636,724,471

Lucent Technologies' Web Site
 Visit us at <http://www.lucent.com>.

[GRAPHIC]

Environment, Health and Safety
For a copy of Lucent Technologies' 1996 Environment,
Health and Safety Report, write to:
Environment, Health and Safety Report
Lucent Technologies
Room D3B47
283 King George Road
Warren, NJ 07059

Back cover: Employees celebrate
Lucent's first day as an independent
company on Oct. 1, 1996.

LUCENT TECHNOLOGIES INC. SUBSIDIARIES

NAME	JURISDICTION OF ORGANIZATION
Lucent Technologies Argentina S.A.	Argentina
Lucent Technologies Australia Pty. Ltd.	Australia
Lucent Technologies Austria Ges.m.b.H.	Austria
Lucent Technologies Middle East W.L.L.	Bahrain
Lucent Technologies Foreign Sales Corporation	Barbados
Lucent Technologies Belgium S.A./N.V.	Belgium
Lucent Technologies Network Systems Belgium S.A./N.V.	Belgium
Lucent Technologies (Bermuda) Ltd.	Bermuda
Lucent Technologies Brasil Ltda.	Brazil
Lucent Technologies World Services, Inc.	Brunei
Lucent Technologies Eurasia Ltd.	Bulgaria
Telecommunications Radioelectriques et Telephoniques (TRT)	Cameroon
Lucent Technologies Canada Inc.	Canada
Lucent Technologies (Chile) Limitada	Chile
Lucent Technologies Colombia S.A.	Colombia
Lucent Technologies de Costa Rica S.A.	Costa Rica
Lucent Technologies s.r.o.	Czech Republic
Lucent Technologies EMEA B.V.	Czech. Republic
LYCOM A/S	Denmark
Lucent Technologies Hispaniola C. por A.	Dominican Republic
EcuLucent Technologies S.A.	Ecuador
Lucent Technologies International Inc.	Egypt
Lucent Technologies El Salvador S.A. de C.V.	El Salvador
AST Electronique S.A.	France
Barphone Services S.A.	France
Distrimatel S.A.R.L.	France
Lucent Technologies BCS S.A.	France
Lucent Technologies Holding France S.A.	France
Lucent Technologies Network Systems France S.A.	France
Telecommunications Radioelectriques et Telephoniques (TRT)	France

NAME	JURISDICTION OF ORGANIZATION
<S>	<C>
Lucent Technologies Business Communications Systems and Microelectronics GmbH	Germany
Lucent Technologies Holding GmbH	Germany
Lucent Technologies Network Fibre Cables GmbH	Germany
Lucent Technologies EMEA B.V.	Greece
Lucent Technologies de Guatemala S.A.	Guatemala
Lucent Technologies de Honduras S.A.	Honduras
Lucent Technologies World Services, Inc. (Honduras Branch Office)	Honduras
Lucent Technologies Asia/Pacific (H.K.) Ltd.	Hong Kong
Lucent Technologies Asia/Pacific Inc.	Hong Kong
Lucent Technologies Korea Ltd.	Hong Kong
Lucent Technologies Business Communications Systems Hungary Kft.	Hungary
Lucent Technologies India Pvt. Ltd.	India
Lucent Technologies Asia/Pacific Inc.	Indonesia
Lucent Technologies Network Systems Nederland B.V.	Indonesia
Lucent Technologies World Services Inc.	Indonesia
Lucent Technologies Ireland Ltd.	Ireland
Lucent Technologies Network Systems Ireland Ltd.	Ireland
Microwave Radio Ltd.	Ireland
Telectron na Farraiige Moire Teoranta	Ireland
Lucent Technologies Belgium S.A./N.V.	Israel
Lucent Technologies Italia S.p.A.	Italy
Lucent Technologies Japan Ltd.	Japan
Lucent Technologies EMEA B.V.	Kazakstan
Lucent Technologies Eurasia Ltd.	Kazakstan
Lucent Technologies World Services Inc.	Kenya
Lucent Technologies Korea Ltd.	Korea
Lucent Technologies World Services Inc.	Kuwait
Lucent Technologies Eurasia Ltd.	Lithuania
Lucent Technologies (Malaysia) Sdn. Bhd.	Malaysia

</TABLE>

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<TABLE>
<CAPTION>

NAME	JURISDICTION OF ORGANIZATION
<S>	<C>
ATTEL del Norte, S.A. de C.V.	Mexico
Informatica y Telecomunicaciones, S.A. de C.V.	Mexico
Integradora de Telecomunicaciones, S.A. de C.V. (INTELSA)	Mexico
ITSA Servicios S.A. de C.V.	Mexico

Lucent Technologies Business Communication Systems de Mexico, S.A. de C.V.	Mexico
Lucent Technologies Consumer Products Mexico, S.A. de C.V.	Mexico
Lucent Technologies de Mexico S.A. de C.V.	Mexico
Lucent Technologies Holdings de Mexico S.A. de C.V.	Mexico
Lucent Technologies International Inc.	Mexico
Lucent Technologies Microelectronica de Mexico S. A. de C. V.	Mexico
Lucent Technologies Productos de Consumo de Mexico S.A. de C.V.	Mexico
Lucent Technologies Productos de Consumo de Monterrey S.A. de C.V.	Mexico
Soporte a Sistemas de Informatica Y Telecomunicaciones S.A. de C.V.	Mexico
Virmar Telecomunicaciones S.A. de C.V.	Mexico
Bedrijvencomplex Huizen/Hilversum C.V.	Netherlands
Lucent Technologies BCS Nederland B.V.	Netherlands
Lucent Technologies EMEA B.V.	Netherlands
Lucent Technologies EMEA Services B.V.	Netherlands
Lucent Technologies EMEA Trading B.V.	Netherlands
Lucent Technologies Network Systems Nederland B.V.	Netherlands
Lucent Technologies WCND Utrecht B.V.	Netherlands
PTS Software B.V.	Netherlands
Lucent Technologies (NZ) Limited	New Zealand
Lucent Technologies Nicaragua S.A.	Nicaragua
Telecommunications Radioelectriques et Telephoniques (TRT)	Oman
Lucent Technologies (China) Co., Ltd.	People's Republic of China
Lucent Technologies (Shanghai) International Enterprises, Ltd.	People's Republic of China

</TABLE>

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<TABLE>
<CAPTION>

NAME	JURISDICTION OF ORGANIZATION
<S>	<C>
AT&T Qingdao Power Systems Company, Ltd.	People's Republic of China
AT&T Qingdao Telecommunications Systems Ltd.	People's Republic of China
Telecommunications Radioelectriques et Telephoniques (TRT)	Pakistan
Lucent Technologies World Services, Inc.	Panama
Lucent Technologies del Peru S.A.	Peru
Lucent Technologies Philippines Inc.	Philippines
Telecommunications Radioelectriques et Telephoniques (TRT)	Philippines
Lucent Technologies BCS Polska Sp. z o.o	Poland
Lucent Technologies Network Systems Poland S.A.	Poland
Lucent Technologies Sp. z o.o.	Poland
Lucent Technologies Puerto Rico Inc.	Puerto Rico

Lucent Technologies World Services Inc.	Puerto Rico
Lucent Technologies Eurasia B.V.	Romania
A/O Lucent Technologies	Russian Federation
Lucent Technologies EMEA B.V.	Russian Federation
Lucent Technologies Eurasia Ltd.	Russian Federation
Lucent Technologies International Inc.	Saudi Arabia
Telecommunications Radioelectriques et Telephoniques (TRT)	Saudi Arabia
Lucent Technologies Consumer Products Pte. Ltd.	Singapore
Lucent Technologies Investment Asia Pte. Ltd.	Singapore
Lucent Technologies Investments Pte. Ltd.	Singapore
Lucent Technologies Microelectronics Pte. Ltd.	Singapore
Lucent Technologies Singapore Pte. Ltd.	Singapore
Lucent Technologies EMEA B.V. (Slovak Rep. office)	Slovak Republic
Lucent Technologies Slovensko s.r.o.	Slovak Republic
Lucent Technologies South Africa (Proprietary) Ltd.	South Africa
AT&T Microelectronica de Espana, S.A.	Spain
Lucent Technologies Microelectronica S.A.	Spain
Lucent Technologies Network Systems Espana S.A.	Spain
Lucent Technologies World Services, Inc.	Spain
Lucent Technologies Asia/Pacific Inc.	Sri Lanka
Lucent Technologies Sweden A.B.	Sweden

</TABLE>

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<TABLE>
<CAPTION>

NAME	JURISDICTION OF ORGANIZATION
<S>	<C>
Lucent Technologies A.G.	Switzerland
Lucent Technologies International Purchasing Company	Taiwan
Lucent Technologies Taiwan Inc.	Taiwan
Lucent Technologies Microelectronics Thailand Ltd.	Thailand
Lucent Technologies Thailand Inc.	Thailand
Lucent Technologies International Inc.	UAE (United Arab Emirates)
AP Telecommunications UK Ltd.	United Kingdom
AT&T Business Communications Europe Ltd.	United Kingdom
Lucent Technologies Network Systems UK Ltd.	United Kingdom
Lucent Technologies UK Limited	United Kingdom
Lucent Technologies Wireless Ltd.	United Kingdom
Teletron Systems Ltd.	United Kingdom
Western Electric Company, Ltd.	United Kingdom

Lucent Technologies EMEA B.V.	Ukraine
Lucent Technologies EMEA Services B.V.	Ukraine
Lucent Technologies Eurasia Ltd.	Ukraine
AT&T Kazakstan Ltd.	Delaware
AT&T Systems & Technology Africa Inc.	Delaware
ATOR Corporation	New York
Bell Laboratories, Inc.	Delaware
Bell Telephone Laboratories Inc.	Delaware
Litespec, Inc.	Delaware
Loose Tube Inc.	Delaware
Lucent Technologies Americas Inc.	Delaware
Lucent Technologies Asia/Pacific Inc.	Delaware
Lucent Technologies Construction Services, Inc.	Delaware
Lucent Technologies Eastern Ventures Inc.	Delaware
Lucent Technologies Engineering Inc.	Delaware
Lucent Technologies Eurasia Ltd.	Delaware
Lucent Technologies Holdings Inc.	Delaware
Lucent Technologies International Inc.	Delaware
Lucent Technologies International Purchasing Company	Delaware

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 <TABLE>
 <CAPTION>

NAME	JURISDICTION OF ORGANIZATION
<S>	<C>
Lucent Technologies Management Services Inc.	Delaware
Lucent Technologies Maquiladoras Inc.	Delaware
Lucent Technologies of Tampa Inc.	Delaware
Lucent Technologies Realty Inc.	New Jersey
Lucent Technologies Services Company Inc.	Delaware
Lucent Technologies Taiwan Inc.	Delaware
Lucent Technologies Technical Services Company Inc.	Delaware
Lucent Technologies Thailand Inc.	Delaware
Lucent Technologies Western Investments Inc.	Delaware
Lucent Technologies World Services Inc.	Delaware
MRAC, Inc.	Delaware
Nassau Metals Corporation	Delaware
NCS OSP Development Corp.	Delaware
NCS Ventures, Inc.	Delaware
Telecommunications Technology Middle East Inc.	Delaware

Western Electric Company, Inc.	Delaware
Western Electric International Incorporated	North Carolina
Lucent Technologies Ventures Inc.	Delaware
Lucent Technologies Venezuela S.A.	Venezuela
Lucent Technologies Asia/Pacific Inc.	Vietnam

</TABLE>

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Lucent Technologies Inc. on (1) Form S-3 (File No. 333-01223) and (2) Forms S-8 (File No.'s 333-08789, 333-08793, 333-08901, 333-08775 and 333-08783 and on Forms S-8 relating to the 1997 Annual Long Term Incentive Plan and Global Founders Grant Stock Option Plan) of our reports dated October 24, 1996, on our audits of the consolidated financial statements and financial statement schedule of Lucent Technologies Inc. and subsidiaries as of September 30, 1996 and December 31, 1995, and for the nine-month period ended September 30, 1996 and the years ended December 31, 1995 and 1994, which reports are included or incorporated by reference in this Transition Report on Form 10-K.

Coopers & Lybrand L.L.P.

New York, New York
December 27, 1996

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, Lucent Technologies Inc., a Delaware corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K for the transition period from January 1, 1996 to September 30, 1996; and

WHEREAS, the undersigned is a Director and/or Officer of the Company, as indicated below following the signature:

NOW, THEREFORE, the undersigned hereby constitutes and appoints Donald K. Peterson, Florence L. Walsh, and James S. Lusk and each of them, as attorneys for, and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a Director and/or Officer of the Company, to execute and file such Form 10-K and any amendments or supplements thereto, hereby giving and granting to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ HENRY B. SCHACHT

 Name: Henry B. Schacht
 Title: Chairman of the Board and
 Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, Lucent Technologies Inc., a Delaware corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K for the transition period from January 1, 1996 to September 30, 1996; and

WHEREAS, the undersigned is a Director and/or Officer of the Company, as indicated below following the signature:

NOW, THEREFORE, the undersigned hereby constitutes and appoints Donald K. Peterson, Florence L. Walsh, and James S. Lusk and each of them, as attorneys for, and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a Director and/or Officer of the Company, to execute and file such Form 10-K and any amendments or supplements thereto, hereby giving and granting to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ RICHARD A. MCGINN

Name: Richard A. McGinn
Title: Director and President and
Chief Operating Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, Lucent Technologies Inc., a Delaware corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K for the transition period from January 1, 1996 to September 30, 1996; and

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ CARLA A. HILLS

Name: Carla A. Hills

Title: Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ DREW LEWIS

Name: Drew Lewis
Title: Director

5

Exhibit 24

POWER OF ATTORNEY

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WHEREAS, Lucent Technologies Inc., a Delaware corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K for the transition period from January 1, 1996 to September 30, 1996; and

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ DONALD S. PERKINS

Name: Donald S. Perkins
Title: Director

6

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ FRANKLIN A. THOMAS

Name: Franklin A. Thomas
Title: Director

7

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ PAUL A. ALLAIRE

Name: Paul A. Allaire
Title: Director

8

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ JOHN A. YOUNG

Name: John A. Young
Title: Director

9

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ PAUL H. O'NEILL

Name: Paul H. O'Neill
Title: Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 13th day of December, 1996.

By: /s/ DONALD K. PETERSON

Name: Donald K. Peterson
Title: Executive Vice President and
Chief Financial Officer

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This schedule contains summary financial information extracted from the balance sheet of Lucent at September 30, 1996 and the consolidated statement of operations for the nine-month period ended September 30, 1996 and is qualified in its entirety by reference to such financial statements.

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