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April 22, 2002
Q2'02
Conference Call Notes and Observations
Lucent Technologies Inc.
6 Months ended March 31, 2002

<http://www.lucent.com/press/0402/020422.coa.html>

Notes From Conference Call

Pat Russo:

1. 5th consecutive quarter of improved bottom line.
2. results within previous guidance.
3. solid progress in Q2. Most significant was the improvement of gross margins.
4. all credit facility conditions of Agere Spin-off have been met, hence spin-off should occur on June 1, 2002.

Frank D'Amelio:

1. Why did Agere spin-off change so quickly in last 3 weeks D'Amelio didn't think this would be attainable so quickly. This was due to significant cost reductions, much quicker than expected.

Frank D'Amelio:

2. Loss per share has been narrowed each quarter.
3. Cash flow is improving.
4. Not providing top line guidance going forward, but they do expect to see "modest" improvement in ProForma reporting next quarter.

Pat Russo:

1. Breakeven point being reduced from quarterly revenues of 4.25 b to 4.00 b.
2. 4.8B in cash and no short term debt, should help us through this telecom storm. Lucent will emerge with a product and service portfolio when industry recovers. Russo insists that industry will recover. Lambda Unite, Lambda Extreme, Stinger, TMX880 are all showing positive acceptances. Metro products are showing traction in the industry. An example of this is the Verizon contract for DWDM metro announced today. MIT technology review gave Lucent the number 1 ranking in the telecom industry. MIT said Lucent wireless product "Blast" is a product to watch.
3. Looking to reduce breakeven point. Priorities are productivity, liquidity and product portfolio, optical and wireless portfolio, satisfy customers, work with customers in helping them achieve cost cutting and implementation results.

Question and Answers

1. Question of Book to Bill ratio by Wachovia. Also asked about "Construction in Progress". Book to Bill not answered, doesn't feel comfortable providing "low funnel information". CIP was a balance sheet entry to billings which will be recognized as revenue in future.
2. Target of 35 % gross margin in F2003. The goal is via product mix, product introduction, efficiency and all phases mentioned previously.
3. Lambda Unite in trials with Deutche Telecom and another vendor. All going well. Dozens of trials with Lambda Unite and Extreme. Low double digits of DMX in large number of trials with customers. This is also true for Metro products.
4. One 10 % customer.
5. How is quarter shaping up? Trying to hit target , yet Frank did say "It is raining today" . Pat Russo said Frank was merely kidding with that statement and indicated that is not indicative of their business climate.
6. Allowance for doubtful dropped by about 300 million.
   a. Vendor financing dropped by 260 million
   b. Allowance basically dropped because of write offs. Frank claims that this reserve reduction did not impact P&L.

7. Frank claimed that March was a significant revenue month. This was a significant uplift of revenues.
8. Frank mentioned that breakeven goal is a little less than 4 billion per quarter. Frank mentioned that future guidance on revenue is probably closer to 4 billion rather than 3.5 billion.

Some " back of the envelope" financial observations

1. Days Sales Outstanding (DSA) decreased to 77 days from 98 days.
2. Debt to Equity ratio is now at 50.38 % ((82+1750+3238/10064). This is a substantial increase to the prior ratios Debt to Equity ratio was 31.42 % ((77+3262)/10627). This is down substantially from 40 % in Q4'01. According to my notes prior Debt to Equity was 25 % in F2000, 42 % in F1999 and 35 % in F1998.
3. Current Ratio (Current Assets / Current Liabilities) has risen to 2.14 from 1.86 in prior quarter. This is an improvement from 1.58 at Q4'01. This is something to watch as we are seeing sequential improvement.
4. Accounts Receivable decreased $ 367 million from Q1'02, yet sales increased $ 51 M. If you project revenues to $16 B for F2002 (not our projection, just a "what-if " argument) then A/R as a % of revenue would be 20 %. Accounts Receivable, as a % of Revenues was 21.57 % in F2001, 28 % in F2000, 29 % in F1999 and 23 % in F1998.. I previously commented that the 28 % in F2000 was "very acceptable". Hence F2001 is improved on that, and F2002 is continuing to show the possible early signs of continued improvement.
5. Inventory decreased $ 318 M. Again, if we extrapolate F2002 revenues to an arbitrary $16 billion, the Inventory/ Sales ratio would be 17 %. Inventory / Sales Ratio at F2001 was 17.12 %. This compares to 17.65 % in F2000. Not much of a change, yet Inventory turns is a much better comparison.
6. Acid Test Ratio (CA- Inventory)/CL is 1.79, whereas it was 1.51 at December 31, 2001. This continues to show a healthy increase, whereas F2001 where it was at 1.22 and from F2000 of 1.01 and F1999 of 1.14.
7. Flow Ratio is 1.45. This continues to slightly improve. The flow ratio is desired to be less than 1.25. Here is the formula : Current Assets = $ 14,709, Cash = $ 4,824, Current Liabilities = $ 6,882 and Short Term Debt = $ 82.

   Flow Ratio = (14,709 - 4,824) / (6,882 - 82) = 1.45. The ratio was 1.48 on December 31, 2001 and 1.52 in F2001, 2.85 in F2000 and 2.36 in F1999.

You can read about the Flow Ratio at this link

<http://www.fool.com/portfolios/RuleMaker/rulemakerstep6.htm - 10>

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