

LITE DEPALMA GREENBERG & RIVAS, LLC

Allyn Z. Lite (AL-6774)
Joseph J. DePalma (JD-7697)
Bruce D. Greenberg (BG-4894)
Two Gateway Center, 12th Floor
Newark, NJ 07102-5003
(973) 623-3000

SCHIFFRIN & BARROWAY, LLP

Marc A. Topaz
Julie Kamens
Three Bala Plaza East
Suite 400
Bala Cynwyd, PA 19004
(610) 667-7706

Attorneys for Plaintiff
(Additional Counsel Listed on Signature Page)

**UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY**

JACQUELINE BRAGIN, individually
and on behalf of all others similarly situated,

Plaintiff,

v.

LUCENT TECHNOLOGIES, HENRY B.
SCHACHT, RICHARD MCGINN and
DEBORAH C. HOPKINS,

Defendants.

Civil Action No.

CLASS ACTION COMPLAINT AND JURY DEMAND

Plaintiff, Jacqueline Bragin, on behalf of herself and all others similarly situated, and
residing at 2102 Basswood Drive, Lafayette Hills, Pennsylvania 19444, by her attorneys, as and

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for her Class Action Complaint, alleges the claims set forth herein. Plaintiff's claims as to her acts are based upon personal knowledge. All other allegations are based upon information and belief and, *inter alia*, the investigation made by and through her attorneys, including a review of the public filings by Defendant, Lucent Technologies, with the United States Securities and Exchange Commission (SEC), as well as published reports and news articles and reports and advisories by and about Lucent Technologies, press releases and other public statements issued by Lucent Technologies and the other Defendants and media reports about Lucent Technologies. Except as alleged herein, the underlying information concerning Defendants' misconduct, and the particulars thereof, are not available to Plaintiff and the public and lie within the possession and control of Defendants and other Lucent Technologies insiders. Based on the evidence already developed, Plaintiff believes that additional substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. Plaintiff brings this action as a class action on behalf of a class (the "Class") consisting of herself and all other persons or entities who purchased Lucent Technologies common stock during the period October 10, 2000 (when Lucent Technologies issued adjusted figures for its fourth quarter 2000 earnings estimates) through November 21, 2000 (when Lucent Technologies disclosed that its previously released fourth quarter 2000 revenues and earnings per share guidance would be reduced by \$125 million, and 2 cents per share, respectively, due to a "revenue recognition issue"), inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and § 27 of the Exchange Act (15 U.S.C. § 78aa).
3. This action arises under §§ 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated under § 10(b) by the SEC (17 C.F.R. § 240.10b-5).
4. Venue is proper in this District pursuant to § 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Additionally, Defendants maintained their chief executive offices and principal place of business within this District during the Class Period.
5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the New York Stock Exchange ("NYSE"), a national securities exchange.

THE PARTIES

6. Plaintiff Jacqueline Bragin purchased Lucent Technologies common stock, as set forth in the Certification attached hereto as Exhibit A and incorporated herein by reference, and has been damaged as a result of defendants' conduct as described herein..
7. a. Defendant Lucent Technologies ("Lucent" or the "Company") is a Delaware corporation with headquarters located at 600 Mountain Avenue, Murray Hill, New Jersey. Lucent designs, develops and manufactures communications systems, software and

products which enable network operators and other service providers to provide wireline and wireless access, local, long distance and international voice, data and video services and cable service. Lucent is engaged in the sale of public and private communications systems, supplying systems and software to most of the world's largest communications network operators and service providers. Lucent is also engaged in the sale of business communications systems and in the sale of microelectronic components for communications applications to manufacturers of communications systems and computers.

b. At all times relevant to this action, Lucent common stock was actively traded on the NYSE under the ticker symbol "LU," and was registered pursuant to § 12 of the Exchange Act (15 U.S.C. § 781). During the Class Period, the market for the Company's common stock was therefore open, well-developed, and efficient at all relevant times. During the Class Period, Lucent filed annual, quarterly, and other reports with the SEC in accordance with the Exchange Act.

8. The following Defendants are collectively referred to as the "Individual Defendants":

a. Defendant Henry B. Schacht ("Schacht") served as Chief Executive Officer and Chairman of Lucent's Board from October 23, 2000, through the present. Prior thereto, he had served as chairman of the Lucent spinoff, Avaya, since March 2000. Schacht had also served as the Company's first chairman and CEO from October 1995 to October 1997, during its launch and first year as an independent company, but stepped down as chairman of Lucent in February 1998. Schacht also served as a consultant to Lucent from February 1998 until February 1999, and has been a Managing Director and Senior Advisor of Warburg Pincus since February 1999.

b. Defendant Richard McGinn ("McGinn") served as Chief Executive Officer of Lucent from the beginning of the Class Period until October 23, 2000.

c. Defendant Deborah C. Hopkins ("Hopkins") joined Lucent in April 2000, and was the Chief Financial Officer of Lucent Technologies throughout the Class period.

Hopkins was responsible for executive management and oversight of all financial operations for the Company. As set forth herein, Defendant Hopkins directly issued many of the statements alleged herein to be misleading.

9. The Individual Defendants are a group for pleading purposes and the Court should presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications, as alleged herein, are the collective actions of the Individual Defendants identified above. Each of the above officers and directors of Lucent, by virtue of their high-level positions with the Company, directly participated in the day-to-day management of the Company, was directly involved in the daily operations of the Company at the highest levels, and was privy to confidential proprietary information concerning the Company and its business, operations, products, growth, financial statements, and financial condition, as alleged herein. Furthermore, each of the Individual Defendants were involved in drafting, producing, reviewing and/or disseminating, the false and misleading statements and information alleged in this Complaint.

10. The Individual Defendants are responsible for the accuracy of the financial statements and public reports and releases detailed herein and are therefore primarily liable for the representations contained therein because of their positions of control and authority as officers and directors of the Company. Because of their positions, the Individual Defendants were able

to, and did, control the contents of the Company's financial reports, press releases and other public statements. The Individual Defendants were provided with copies of the statements and documents alleged herein to be false and misleading prior to, and/or shortly after, their issuance, and had the ability and opportunity to either prevent their issuance or to cause them to be corrected.

11. As officers, directors, and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, traded on the NYSE, and governed by the provisions of the federal securities laws, each of the Individual Defendants had a duty to promptly disseminate, accurate and truthful information about the Company's financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these requirements and obligations.

12. Because of their positions within the Company, the Individual Defendants had access to the adverse undisclosed information about Lucent's business prospects and financial conditions and performance, as particularized herein, and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Lucent and its business materially false and misleading. Each of the Individual Defendants participated in the drafting, preparation, and/or approval of the various public, shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the

misstatements contained therein and omissions therefrom.

13. Each of the Individual Defendants are liable as a direct participant in a fraudulent scheme and course of conduct that operated as a fraud or deceit on the purchasers of Lucent common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding the true state of Lucent's financial condition and caused Plaintiff and other members of the Class to purchase Lucent common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

14. On October 10, 2000, one hour before the close of the stock market, Lucent issued a press release announcing that it expected its fourth quarter 2000 earnings to be less than indicated in the previous guidance it had provided to investors and the market. The Company's press release stated:

Lucent Technologies (NYSE: LU) said today that, based on preliminary estimates, it expects earnings for its fourth fiscal quarter of 2000 to be lower than the company's previously announced guidance. The company expects pro forma earnings per share from continuing operations for the quarter, which ended September 30, 2000, to be in the range of 17 cents to 18 cents per share compared to 24 cents for the year-ago quarter. The company expects to report pro forma revenues from continuing operations in the range of \$9.3 billion to \$9.4 billion for the quarter, a 14 percent to 15 percent increase over the prior year period.

In July, the company said it expected that pro forma revenues from continuing operations would grow about 15 percent for the fourth fiscal quarter of 2000 and pro forma earnings per share from continuing operations would be roughly in line with revenue growth.

The company said the lower-than-expected earnings for the quarter could be almost equally attributed to three factors:

1. Less than expected revenues and gross margins in the company's

optical systems business;

2. Credit concerns in the emerging service provider market that led to increasing reserves for bad debt;
3. Greater than anticipated decline in circuit switching sales and margins. The company indicated that gross margin this quarter would be in the range of 39 percent to 40 percent.

For the quarter, the company indicated that while it had strong overall growth in the wireless business, it would report flat growth primarily due to a comparison related to a major foreign contract in the year-ago quarter. Revenues from optical networking systems, including optical fiber, were down about 5 percent and switching systems were down about 13 percent. However, Lucent saw strong revenue growth in several areas. The company's Microelectronics and Communications Technologies group's revenues grew more than 50 percent for the quarter. In addition, revenues in the Internet infrastructure business grew more than 40 percent for the quarter. This marks the fourth quarter in a row that this business showed growth over 40 percent. Lucent's services business grew about 18 percent for the quarter.

Fiscal 2000 results

The company indicated that the expected fourth quarter revenue and earnings would result in an increase in fiscal year 2000 pro forma revenue from continuing operations of approximately 14 percent and a decline in pro forma earnings per share from continuing operations of approximately 10 percent to 11 percent. Lucent said that its fourth quarter results will impact and lower its guidance for fiscal year 2001.

15. On October 10, 2000, Defendant McGinn was quoted in an article posted on the Internet by Scott Moritz of "TheStreet.com" as stating:

You should not equate this to a decline in carrier spending . . . The market overall for the building blocks of the broadband and mobile internet remains strong...We experienced some situations in this quarter with certain customer that fall in the category of doubtful accounts.

16. The statements by Defendants recounted in the preceding two paragraphs were

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The company indicated that the expected fourth quarter revenue and earnings would result in an increase in fiscal year 2000 pro forma revenue from continuing operations of approximately 14 percent and a decline in pro forma earnings per share from continuing operations of approximately 10 percent to 11 percent. Lucent said that its fourth quarter results will impact and lower its guidance for fiscal year 2001.

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16. The statements by Defendants recounted in the preceding two paragraphs were

false and misleading because they failed to reveal that:

- a. earnings per share for the fourth quarter of 2000 would not be in the range of 17 cents to 18 cents per share due to the "revenue recognition issue" disclosed by the Defendants at the end of the Class Period;
- b. pro forma revenues from continuing operations would not "grow about 15 percent for the fourth fiscal quarter of 2000" due to an undisclosed "revenue recognition issue" which would reduce the Company's revenues by an estimated \$125 million;
- c. the Company's estimates were materially inflated because the Company had failed to make reserves against bad debts in an appropriate manner;
- d. the Company failed to disclose the increasing problems it was experiencing with respect to the collectability of its accounts receivables; and
- e. Lucent's reliance on vendor financing to push sales of the Company's products made it vulnerable downturns in its customers' business and prejudiced Lucent's position vis-a-vis its competitors such as Nortel.

17. The market's reaction in response to the Company's October 10, 2000 announcement was swift and severe; Lucent's stock plummeted \$7.25 from \$31.38 to \$24.13 in after-hours trading. On October 10, 2000, Wylie Wong of CNET News.com reported that:

Lucent expects to earn between 17 cents and 18 cents per share, compared with 24 cents a share for the same quarter a year ago. Analysts had expected earnings of 27 cents a share, according to First Call/Thomson Financial. The company said it will report fourth-quarter earnings Oct. 24.

Lucent executives said the earnings warning is due to lower-than-expected revenue from its optical networking business and a decline in the sale of traditional voice products, as well as potential bad loans to emerging service provider customers.

* * *

"It is clear there must be a major retooling of the Lucent business . . . The problems will not be fixed in one quarter, but they're fixable," said McGinn, who has been under fire after a rocky financial year.

The chief executive's detractors may grow louder with Lucent's latest earnings warning. In recent months, some Wall Street analysts have speculated that McGinn may be in the hot seat. Today's announcement marks the second warning Lucent has issued for its fourth-quarter performance and follows a poor first-quarter showing, when the company missed estimates.

* * *

Lucent executives said the company expects to report fourth-quarter revenue of between \$9.3 billion and \$9.4 billion for the quarter, a 14 percent to 15 percent increase over the same quarter last year. The company in July had predicted a 15 percent revenue increase

* * *

In January, Lucent blamed its first-quarter earnings shortfall on the company's inability to meet its service provider customers' demands for optical networking equipment, lower software sales, and delays in purchases by other service providers.

Lucent executives at the time said the company was too slow to respond to the need for higher-speed optical equipment, allowing Nortel to take an early lead in the exploding market. Optical equipment allows service providers to send larger amounts of Net traffic across their networks at faster speeds.

After working to correct the problems by increasing manufacturing of optical equipment and announcing new products, Lucent rebounded the next two quarters by reporting better-than-expected profits.

But the company in July warned of weaker growth in the fourth quarter. Lucent executives blamed a faster-than-expected decline in the company's older voice equipment, which is not expected to be offset as quickly by the introduction of newer Internet-based products, such as optical and wireless equipment.

Analysts noted that part of Lucent's problem was listening to their old big customers like AT&T and the Baby Bell companies rather than examining the future and the needs of those customers.

"Lucent acknowledged on the conference call (with analysts) that their traditional customers didn't move as fast with optical technology as some of the other carriers. Lucent really misjudged the market, considering how close they are to AT&T," said Dave Heger, an analyst with A.G. Edwards. Lucent is a spinoff of telecommunications giant AT&T.

Strong demand for optical equipment is coming from the newer carriers like Qwest Communications International and Global Crossing, Heger said.

Lucent's warning regarding its optical business posed the greatest concern, he added. "This should be the company's strong growth area."

During Tuesday's conference call, McGinn said revenue from optical networking equipment will be down 5 percent from the same quarter a year ago, while sales from traditional voice products will be down 13 percent. Wireless sales will remain flat.

Lucent will see strong revenue growth in other parts of the business, however. McGinn said revenue from the company's fiber-optic component and chipmaking group will rise 50 percent, its Internet infrastructure sales will grow 40 percent, and revenue from its professional services business will increase 18 percent.

McGinn said the company has resolved its manufacturing problems for optical equipment. Overall optical sales is declining 5 percent this quarter because service provider customers are still testing the equipment before deciding whether to buy it, he said.

"We've been playing catch-up. Because we were late, we went through a lengthy certification process," he said. "And that's what's going on. We're in the throes of that with a lot of customers."

18. On October 10, 2000, Larry Barret of Zdnet Interactive Investor reported that:

Lucent (NYSE: LU), which warned in July that it would miss estimates in the quarter, said it now expects to post a profit of between 17 cents to 18 cents a share in the quarter.

Analysts surveyed by First Call Corp. lowered their initial profit estimate from 42 cents a share to 27 cents a share following the July warning.

* * *

Apparently, Lucent was a bit too optimistic when it delivered the sour news in July.

It now expects to record sales of between \$9.3 to \$9.4 billion, roughly a 15 percent improvement from the year-ago quarter.

Company officials blamed weak margins in its optical systems business, a rising bad debt reserve and a brutal decline in demand for its circuit-switching equipment.

It also said the lackluster fourth quarter will result in lowering sales and earnings expectations for fiscal 2001, although it did not provide any details.

Ahead of the warning, Lucent shares closed off \$1 to \$31.31.

Lucent officials said it expects gross profit margins of between 39 percent to 40 percent in the quarter.

* * *

Company officials said fourth quarter sales and earnings will result in an increase in fiscal year 2000 pro forma sales from continuing operations of approximately 14 percent and a decline in pro forma earnings per share from continuing operations of approximately 10 percent to 11 percent.

19. On October 10, 2000, Brian Graney reported in the Motley Fool website on the Internet that:

For the period, the Murray Hill, New Jersey-based company is guiding investors to expect pro forma operating EPS between \$0.17 and \$0.18, down from last year's result of \$0.24 and well short of the current First Call mean estimate of \$0.27. This is the second downward revision for Q4 in three months for Lucent, which first lowered its guidance for the quarter back in July. At the time, analysts had been calling for EPS of \$0.41 in Q4. With today's warning, earnings for the full-year will consequently come in around \$1.00 per share. The bad vibes will also have an unspecified negative impact on results in fiscal 2001, according to the company.

20. On October 23, 2000, Lucent announced the dismissal of Defendant McGinn and the installment of Defendant Schacht at Chief Executive Officer of the Company. Lucent's press release stated:

In a meeting this weekend, the board reviewed Lucent's recent performance and outlook for the current quarter and determined that an immediate change in leadership was necessary. The company said that it expects pro forma revenue from continuing operations(1) for the current quarter to decline about 7 percent and pro forma earnings per share from continuing operations to break even. The company also said it expects sequential improvement in results from operations each quarter for the rest of the fiscal year. This guidance does not include the effect of plans for a business restructuring charge.

Lucent will be moving the release of its fourth fiscal quarter 2000 results, previously scheduled for tomorrow morning, to after the close of the New York Stock Exchange at 4:00 p.m. today.

* * *

"This was a difficult decision made after considerable deliberation," said Franklin Thomas, Lucent's senior director, representing Lucent Technologies' board. "Rich has made significant contributions to Lucent over the past five years as he focused the company on the growth markets and key technologies that would ensure its future prosperity. However, the board felt a different set of skills was required at this point in the company's life."

"Lucent competes in one of the world's leading growth markets, and remains a company with world-class products, people and knowledge of networks," said Henry Schacht. "Our issues are ones of execution and focus, and they are fixable."

"I look forward to working with Lucent's senior leadership team and all the very talented people of Lucent on this turnaround. Their hearts and talents will be critical in returning the luster to Lucent Technologies' performance and reputation. I have seen Lucent's people accomplish incredible feats before, and I know we are up to this challenge," he concluded.

The company confirmed that it would move ahead with plans to spin off the microelectronics business and sell its power systems business.

21. On October 23, 2000, after the close of the market, Defendants announced the results for the Company's fourth quarter 2000 fiscal results. The Company's press release stated:

Lucent Technologies (NYSE: LU) today said that pro forma revenues from continuing operations increased 14.6 percent to \$9.4 billion for its fourth fiscal quarter ended Sept. 30, 2000, versus \$8.2 billion in the year-ago quarter.

Pro forma earnings per share from continuing operations for the quarter were 18 cents a share, or \$600 million, down from 24 cents a share, or \$768 million, a year ago. These results are in line with the announcement the company made on Oct. 10, saying that it expected its fourth fiscal quarter earnings to be lower than its previously announced guidance.

For the fiscal year ended Sept. 30, 2000, pro forma revenues from continuing operations rose 14.5 percent over fiscal year 1999 to \$34.3 billion. Pro forma earnings per share from continuing operations declined 9.8 percent.

* * *

"We have already begun a number of initiatives to sharpen our execution,

reduce complexity and increase our efficiencies," said Deborah Hopkins, Lucent's chief financial officer. Hopkins said that these initiatives include an intense review of Lucent's product portfolio to align resources against the highest value opportunities. Additionally, these initiatives also include consolidating Lucent's corporate infrastructure, re-deploying the company's marketing and sales resources to align them with the highest growth opportunities, improving supply chain management and implementing a new customer ordering system. As previously announced, the company expects to take a restructuring charge in the quarter ending Dec. 31, 2000, to cover these activities.

"We intend to create a new Lucent - a dynamic company that, in the long term, will be stronger, more focused and better positioned to capitalize on the opportunities that exist in this robust and growing market," Hopkins added.

Revised Expectations for First Fiscal Quarter of 2001

Hopkins said that Lucent expects pro forma revenues from continuing operations will decline about 7 percent from the prior year, and pro forma earnings per share from continuing operations will break even for the first fiscal quarter of 2001. The company also said it expects results from operations to improve sequentially each quarter for the rest of the fiscal year. This guidance does not include the effect of plans for a business restructuring charge. She noted that the company will provide revised guidance for fiscal year 2001 when it reports its first fiscal quarter earnings in January.

These revised expectations reflect the continuing issues related to the deployment of the OC-192 optical system; the continuing decline in switching hardware and software sales; the anticipated revenue impact of realigning sales resources; and aggressively investing in the next generation of wireless, optical and data products.

* * *

A Review of Fourth Fiscal Quarter Performance

Commenting on the results for the fourth fiscal quarter of 2000, Hopkins said, "Three key issues negatively impacted our performance. We saw lower-than-expected revenues and gross margins in our optical business, due primarily to being late to market with our OC-192 product and the effect that had on the entire product cycle, from engineering and manufacturing to deployment and launch. We also experienced lower-than-expected revenues and margins from switching products. And specific credit concerns in the growing emerging service provider market led us to increase our reserves for bad debt related to trade receivables."

22. After issuing its release, the Company conducted an analyst conference call.

During that call, Defendant Schacht stated:

[We're] taking actions intended to create the new Lucent. This is a transition year, and we'll make progress quarter after quarter and make timely decisions that are going to create a healthy company.

We intend to turn the company [over] to a new CEO on a new track and . . . in the condition its expected to be in.

23. During this conference call, Defendant Hopkins stated:

We will come back to you in January with guidance for the new Lucent for the remainder of the fiscal year. However, we do expect sequential improvement in each quarter of 2000.

24. The statements and representations of Defendants set forth in paragraphs 21 - 24

herein were false and misleading because Defendants failed to reveal that:

- a. Lucent's reported earnings of \$.18 per share for the fourth quarter of 2000 was materially overstated due to the "revenue recognition issue" disclosed by the Defendants at the end of the Class Period;
- b. pro forma revenues from continuing operations had not grown 14.5 percent for the fourth fiscal quarter of 2000, but were instead at least \$125 million less than reported due to an undisclosed "revenue recognition issue";
- c. the Company's reported results were materially overstated because it had failed to appropriately make reserves against bad debts;
- d. the Defendants failed to disclose the increasing problems it was experiencing with respect to the collectability of its accounts receivables; and

- e. the Company's business prospects were severely challenged due to its failure to attract sufficient engineering talent to enable it become and remain competitive.

The Truth is Revealed

25. Finally, on November 21, 2000, prior to the opening of the financial markets, Defendants issued the following statement:

Lucent Technologies (NYSE: LU) today said that it has identified a revenue recognition issue impacting approximately \$125 million of revenue in its fourth fiscal quarter ended Sept. 30, 2000. The company estimates that the reduction in revenue could have an approximately 2 cent impact on earnings per share for the quarter and the year. The company previously reported \$9.4 billion in revenues and 18 cents a share on continuing operations for the quarter.

'We wanted to make this public as soon as we discovered the issue,' said Henry Schacht, Chairman and Chief Executive Officer of Lucent Technologies. 'I have asked our outside auditor and our outside counsel to assist us in doing a complete review of this and any related issues. We have also informed the Securities and Exchange Commission of our efforts.'

The issue was discovered as the company was completing the final preparation of its financial statements for its fiscal year.

At this time, the company also indicated that it cannot confirm its guidance for the first quarter of 2001.

* * *

Until the review is completed, the company said that it would have no further comment. (emphasis added)

Thus, not until November 21, 2000 were investors alerted to the revenue recognition problems present at the Company which, because they were undisclosed, caused the price of Lucent's stock

to be inflated during the Class Period.

26. In response to the November 21, 2000 disclosure, the price of Lucent stock plummeted 16 to 12% from its closing price on November 20, 2000 of 20 15/16 to close at 17 9/16 on November 21, 2000. Lucent was the most active stock on the NYSE on November 21, 2000 with 60,332,500 shares trading hands that day.

27. Lucent Investors' negative reaction was accompanied by a maelstrom of recriminations from analysts and the financial press. On November 21, 2000, Bloomberg News reported as follows:

Lucent Technologies told investors not to rely on its first-quarter forecast after finding an accounting error that forced it to reduce fourth-quarter profit by 2 cents a share and sales by \$125 million.

Lucent shares fell \$2.94 to \$18 in early trading, their lowest level in about three years. For the fourth quarter ended Sept. 30, Lucent, based here, previously reported revenue of \$9.4 billion and earnings of 18 cents a share from continuing operations, company spokesman Bill Price said.

Last month, Lucent ousted chairman and chief executive Rich McGinn and brought back his predecessor, director Henry Schacht, to halt a string of profit disappointments. Lucent has lost sales of profitable voice switches to competitors and fell behind in fiber optics.

'If you can't get any reasonable guidance, how can you invest in a stock at this point?' said Rich Krable, an analyst with Loomis, Sayles & Co. 'We need to know what the growth profile of this company is.'

* * *

First-quarter results will be the second quarter in a row that earnings per share fell.

'The problems may run deeper than people thought,' said analyst Greg Geiling of JP Morgan Securities. 'They're going to have to have a ton of shareholder lawsuits.'

28. On the same day, Jeffery Bartash of CBS MarketWatch.com reported:

The latest warning comes less than a month since Lucent fired Chief Executive Rich McGinn, who lost his job after the giant equipment maker was forced to cut earnings estimates four times in nine months.

Lucent said its auditor, PriceWaterhouseCoopers, 'identified a revenue recognition issue impacting approximately \$125 million' in sales.

The problem will reduce fourth-quarter earnings by 2 cents a share, the company said. Lucent previously reported earnings from operations of 18 cents a share on revenue of \$9.4 billion.

The discovery also means Lucent 'cannot confirm its guidance for the first quarter of 2001,' the Company said.

* * *

Lucent did not say exactly what the problem was and said it would not comment further until auditors complete their review.

A small part of Lucent's financial troubles stem from generous credit arrangements with its customers. To boost sales, Lucent sold equipment to smaller independent phone carriers, but some of those companies later encountered trouble of their own and were unable to pay their bills.

The revenue-recognition problem could stem from the company's ability to realize some of those sales.

ADDITIONAL SCIENTER ALLEGATIONS

29. As alleged herein, the Individual Defendants acted with scienter in that each Individual Defendant knew of, or recklessly disregarded, the fact that public documents and statements issued or disseminated in the name of the Company were materially false and misleading. Each Individual Defendant knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public and they substantially participated or acquiesced in the issuance or dissemination of such statements or documents in violation of the federal securities laws. The Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding Lucent, their control over, and/or receipt and/or modification of Lucent's materially misleading misstatements and/or their associations with and within the Company made them privy to confidential proprietary information concerning Lucent, and enabled them to participate in the fraudulent scheme alleged herein.

30. The Individual Defendants caused the Company to issue favorable statements with respect to the Lucent while knowing that the Company was having accounting problems. These statements were shown to be misleading by not only internal evidence which should have been known to Defendants during the Class Period, but also the later admissions about known events existing at the time these statements were made.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

31. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of the Class, consisting of all persons who purchased Lucent common stock during the Class Period and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families, their agents and affiliates.

32. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Lucent common shares were actively traded on the NYSE. As of September 30, 2000 there were 3.38 billion shares of Lucent common stock issued and outstanding. The trading volume for Lucent stock during the Class Period was over 11 million shares on each day during the Class Period and reached daily volumes of over 100 million shares. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, there are an estimated 5.3 million total Lucent shareholders. Record owners and other members of the Class may be identified from records maintained by Lucent or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

33. Plaintiff's claims are typical of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct that is complained of herein.

34. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

35. Common questions of law and fact as to all members of the Class predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the federal securities laws were violated by Defendants' acts as alleged herein;
- b. whether statements made by Defendants to the investing public during the Class Period misrepresented or omitted to disclose material facts about the business, operations and financial statements or condition of Lucent; and
- c. to what extent the members of the Class have sustained damages and the proper measure of damages.

36. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**APPLICABILITY OF PRESUMPTION OF RELIANCE & THE
FRAUD-ON-THE-MARKET DOCTRINE**

37. At all relevant times, the market for Lucent's stock was an efficient market for the following reasons:

- a. Lucent's stock met the technical quantitative requirements for listing, and was listed and actively traded on the New York Stock Exchange, a highly efficient and automated market;
- b. As a regulated issuer, Lucent filed periodic public reports with the SEC and the NYSE;
- c. Lucent regularly communicated with public investors through established market communication mechanisms, including regular disseminations of press releases on major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and
- d. Lucent was followed by several securities analysts employed by major brokerage firms, including, *inter alia*, A.G. Edwards and Sons Inc., ABN AMRO Inc., Argus Research, Banc of America Securities LLC, Branch Cabell and Co., CE Unterberg Towbin, CIBC World Markets, CO FORECST, Chase H&Q, Credit Suisse First Boston Corp., Crowell Weedon and Co., Edward D. Jones, First Security Van Kasper, First Union Capital Markets, Gerard Klauer Mattison and Co., Goldis Pittsburg Institutional Services Inc., Goldman Sachs and Co., ING Baring Furman Selz LLC., J.P. Morgan Securities Inc., Josephthal and Co. Inc., Lehman Brothers Inc., Merrill Lynch and Co., Morgan StanleyDean Witter and Co., Pershing Investment Research, Robert W. Baird and Co. Inc., Robertson Stephens, S G Cowen Securities Corp., Salomon Smith Barney Inc., Sands Brothers and Co. Ltd., Stifel Nicolaus and Co., UBS

Warburg , Wachovia Securities Inc., Wasserstein Perella Securities Inc., and Wit Capital Inc.

These analysts issued written reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each report was publicly available and entered the public marketplace.

38. As a result of the foregoing, the market for Lucent's stock promptly digested current information regarding Lucent from all publicly available sources and reflected such information in Lucent's stock price. Because of this, all purchasers of Lucent's common stock during the Class Period suffered similar injury through their purchase of Lucent's common stock at artificially inflated prices, and a presumption of reliance applies.

NO STATUTORY SAFE HARBOR

39. The statutory safe harbor provides for forward-looking statements under certain circumstances however, it does not apply to any of the statements pleaded in this Complaint which are alleged by Plaintiff to be false and misleading. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. Moreover, the specific statements pleaded herein related to conditions existing at the time the statements were made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking

statement was false, and/or the was authorized and/or approved by an officer of Lucent who knew that those statements were false when made.

COUNT I

**[Against All Defendants For Violation Of Section 10(b) Of The Exchange Act
And Rule 10b-5 Promulgated Thereunder]**

40. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

41. During the Class Period, Lucent and the Individual Defendants, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (a) deceive the investing public, including Plaintiff and the other Class members, as alleged herein; (b) artificially inflate and maintain the market price of Lucent's common stock; and (c) cause Plaintiff and other members of the Class to purchase Lucent's common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

42. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Lucent's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

statement was false, and/or the was authorized and/or approved by an officer of Lucent who knew that those statements were false when made.

COUNT I

**[Against All Defendants For Violation Of Section 10(b) Of The Exchange Act
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43. In addition to the duties of full disclosure imposed on Defendants as a result of their affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulations S-X (17 C.F.R. Sections 210.01 et seq.) and Regulations S-K (17 C.F.R. Sections 229.10 et seq.) and other SEC regulations, including making accurate and truthful information with respect to the Company's operations, financial condition and earnings so that the market price of the Company's securities would be based on truthful, complete and accurate information.

44. Lucent and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Lucent as specified herein.

45. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (a) each of these Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (b) each of these Defendants, by virtue of his or her responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (c) each of these Defendants enjoyed significant personal contact and familiarity with the other Defendants and was advised of and had access to other members of the

Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (d) each of these Defendants was aware of the Company's dissemination of information to the investing public, which they knew of recklessly disregarded was materially false and misleading.

46. Each Defendant had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. The Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Lucent's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

47. As a result of the dissemination of the materially false and misleading information and failure to disclosure material facts, as set forth above, the market price of Lucent's common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of Lucent's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or in the absence of material adverse information that was known

to Defendants. Plaintiff and the Class purchased Lucent common stock at artificially inflated prices and were damaged thereby.

COUNT II

**[Against the Individual Defendants For
Violation of § 20(a) of the Exchange Act]**

48. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

49. As officers and/or directors of Lucent, the Individual Defendants were "controlling persons" of the Company because they had the power to cause Lucent to engage in the unlawful conduct complained of herein and because they could have prevented the unlawful conduct that Plaintiff alleges.

50. The Individual Defendants cannot demonstrate that they acted in good faith in connection with the misconduct committed by Lucent that Plaintiff alleges. The Individual Defendants directly or indirectly induced Lucent to commit the unlawful acts alleged herein.

51. Because the Individual Defendants were "controlling persons" of the Company, which is a person primarily liable to Plaintiff and the Class under § 10(b) of the Exchange Act, the Individual Defendants are secondarily liable for those primary violations pursuant to § 20(a) of the Exchange Act.

WHEREFORE, Plaintiff requests relief as follows:

a. declaring this action to be a plaintiff class action properly maintained pursuant to Rule

23(a) and (b)(3) of the Federal Rules of Civil Procedure;

b. awarding plaintiff and other members of the Class damages together with interest thereon;

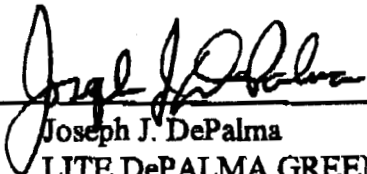
c. awarding plaintiff and other members of the Class their costs and expenses of this litigation, including reasonable attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and

d. awarding plaintiff and other members of the Class such other further relief as may be just and proper under the circumstances.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

DATED: November 28, 2000

By: 

Joseph J. DePalma
LITE DePALMA GREENBERG & RIVAS, LLC
Two Gateway Center, 12th Floor
Newark, NJ 07102-5003
(973) 623-3000

SCHIFFRIN & BARROWAY, LLP
Marc A. Topaz
Julie Kamens
Three Bala Plaza East
Suite 400
Bala Cynwyd, PA 19004
(610) 667-7706

FROM 610-667-7056

610+667+7056 (FRI) 12. 1' 00 18:00/ST. 17:55/NO. 4862477905 P 29

CAULEY & GELLER, LLP

Paul Geller

One Boca Place

2255 Glades Road

Suite 421A

Boca Raton, FL 33431

(561) 750-3000

Attorneys for Plaintiff

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