



September 6, 1996

To: All Network Cable Systems Managers

We made strong progress on a few critical projects in July, and we continue to maintain a very good profit picture, in spite of a slowdown in revenue. Let me start with the financials so you can see what we need to focus on through the end of the year.

Our July revenue was 11 percent under our current authorized objective (CAO), bringing our year-to-date revenue to almost 3 percent less than planned. While there were shortfalls in several customer business units (CBU), the Caribbean and Latin America, AT&T and China CBU's continued to turn in strong performances, so congratulations to those teams.

We were able to keep expenses down, some 7.5 percent under our objective due to cumulative marketing and sales expense adjustments all being processed in the current month. However, on a year-to-date basis, total expenses are above our objective by 3 percent. The two biggest contributors to that are general and administrative expenses, primarily from our joint ventures, and distribution. We've also done a good job with incurred costs, which remain under CAO -- by 13 percent in July and 7.5 percent for the year.

July's measured operating income (MOI) was significantly off plan, primarily because of the sales shortfalls and associated margins. However, our year-to-date MOI is still strong, 13 percent over objective, largely because of stronger-than-anticipated margins.

Inventory levels remained basically flat (down less than 1 percent) from June so we still have work to do there.

There was a significant decline in our delivery of material-only orders. However, early reports on our August performance indicate that we are rapidly turning that around. Stock delivery performance declined from 85 percent in April to 61 percent in July. By the third week in August, it was back up to 82 percent. Our ability to deliver material by the date we committed to also declined in July to about 69 percent, but that metric was at 85.3 percent by late August.

This drop in our performance was due in part to the fact we moved material from our Martinsburg, West Virginia facility to the Montgomery, Alabama facility. We had only a few weeks to virtually empty the Martinsburg material distribution center (MDC) because of the potential sale of that building.

During that time, the Montgomery team's workload increased from 4,500 selects a day to 7,500 selects while massive volumes of material from Martinsburg flowed into the warehouse. To make it all happen, the MDC team worked seven-day weeks and 10-hour shifts, and they now have the situation under control. We saw dramatic improvements in August, and in September we should be back up to our previous delivery levels for MDC stocked products.

There are two major successes I would like the whole team to know about. One involves a great win for the fiber apparatus team and the other a major project in Manhattan and a great win for the Global Commercial Markets team selling to the cable television industry.

The first is that we received notification from NYNEX that we are one of only two vendors -- out of 15 vying for the designation -- whose fiber optic jumpers and preterminated shelves had been approved for use in its facilities. This has the potential to bring in more than \$7 million annually for us, according to Account Executive Steve Coleman. NYNEX was impressed with the innovativeness of our product, particularly our high-density shelves with mini-cord jumpers. Bellcore evaluated these as the easiest to use in the industry.

Atlanta Works team members should be proud of the fact that the leading edge fiber apparatus manufacturing technology we developed was a factor in the customer's decision. This has been a three-year project, and many people were involved, but in addition to Steve, particular thanks goes to Laurie Carlton, Gene Gilbert, Gayle Yeager, Gerry Cartenuto, Yvonne Reeves and Mike Otero. Thanks also goes to the manufacturing, engineering and quality organizations for the support they gave during NYNEX's review of our manufacturing and quality processes, which scored a 98 out of 100.

Here's another great story that began last September when Time Warner approached ANTEC, one of our product system integrators, needing to install some 50 miles of cable in New York. But not just any kind of cable would do. They needed much more fiber in much less space to accommodate the anticipated traffic and the difficulties of pulling cable in Manhattan. The NCS team responded by developing an innovative product to meet the customer's needs, in effect, a 2-for-1 product introduction --- High Fiber Count Ribbon Units in a newly designed High Fiber Count Jacketed Cable. Both are an industry first!

By November Lucent Product Management and Engineering had come up with a cable design and price that Time Warner accepted, even though it had an existing contract with another vendor. The team designed a cable with 228 fibers contained in a cable less than one inch in diameter. The Atlanta Works supported the project enthusiastically and rolled out shipments in early April. All 50 miles of this innovative product have shipped and are being installed, using mass fusion splicing, giving Time Warner extra installation time and cost savings in Manhattan where construction permit time is so limited.

And good news travels fast -- another ANTEC cable television customer, Continental Cable of Naples, Florida recently placed an order for this High Fiber Count AccuRibbon Cable design. We just shipped both a 336-fiber count and 360-fiber count AccuRibbon Cable to Continental Cable!

These projects embody so many of our Lucent values -- from a passion for serving customers shown by the Global Commercial Markets CATV Customer Team and the Customer Marketing Team, to the innovativeness displayed by our product design and manufacturing teams. This great example of teamwork resulted in an exceptional response, and a speedy one, which provided the right solution for our customer. My congratulations and thanks to all.

With summer almost over, we now face the busiest time of the year. Let's make sure it is the best as well. Thanks for all your great work so far. I know we will do even better going forward. If you have any questions, comments or suggestions on how we can do more for our customers and our team, please call Roberta Roser, our business operations manager, on 201-606-2722. Her fax is 201-606-3162, and her email address is !robertaroser. As always your confidentiality is guaranteed.



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