

**U.S. Department of Justice**  
Criminal Division, Fraud Section

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November 14, 2007

Martin J. Weinstein, Esq.  
Willkie Farr & Gallagher LLP  
1875 K Street, N.W.  
Washington, D.C. 20006-1238

**Re: Lucent Technologies Inc.**

Dear Mr. Weinstein:

On the understandings specified below, the United States Department of Justice, Criminal Division, Fraud Section (“this Office” or “the Department”) will not criminally prosecute Lucent Technologies Inc. and its subsidiaries and affiliates (collectively “LUCENT”) for any crimes (except for criminal tax violations, as to which this Office cannot and does not make any agreement) related to certain foreign sales activities of LUCENT occurring prior to its merger with Alcatel SA, involving Chinese government officials and the improper accounting and record-keeping associated with certain corporate expenditures on behalf of those officials, as described in Appendix A to this letter, which is incorporated by reference herein.

It is understood that, separate from the investigation of certain foreign sales activities of LUCENT, the Department is currently investigating whether Alcatel SA and its subsidiaries and affiliates, prior to the merger with LUCENT, violated the Foreign Corrupt Practices Act (“FCPA”), 15 U.S.C. §§ 78dd-1, *et seq.*, and other federal criminal laws, in connection with mobile telecommunications business in Costa Rica and elsewhere. It is further understood that the Department makes no agreement or promise with respect to that ongoing investigation.

It is understood that LUCENT admits, accepts, and acknowledges responsibility for the conduct set forth in Appendix A and agrees not to make any public statement contradicting Appendix A.

If LUCENT fully complies with the understandings specified in this agreement, including all Appendices hereto (the “Agreement”), no information given by or on behalf of LUCENT at the request of this Office (or any other information directly or indirectly derived therefrom) will be used against LUCENT in any criminal tax prosecution. This Agreement does not provide any protection against prosecution for any crimes except as set forth above, and applies only to LUCENT and not to any other entities or individuals

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except as set forth in this Agreement. LUCENT expressly understands that the protections provided to LUCENT shall not apply to any acquirer or successor entities unless and until such acquirer or successor formally adopts and executes this Agreement.

This Agreement shall have a term of two (2) years from the date of this Agreement, except as specifically provided in the following paragraph. It is understood that for the two (2) year term of the Agreement, LUCENT shall: (a) commit no crimes whatsoever; (b) truthfully and completely disclose information with respect to the activities of LUCENT, its officers and employees, and others concerning all matters about which this Office inquires of it, which information can be used for any purpose, except as otherwise limited in this Agreement; and (c) bring to this Office's attention all criminal conduct by, or criminal investigations of, LUCENT or any of its senior managerial employees, that comes to the attention of LUCENT or its senior management, as well as any administrative proceeding or civil action brought by any governmental authority that alleges fraud by or against LUCENT.

Until the date upon which all investigations and prosecutions arising out of the conduct described in this Agreement are concluded, whether or not they are concluded within the two (2) year term specified in the preceding paragraph, LUCENT shall: (a) cooperate fully with this Office, the Federal Bureau of Investigation, the Securities and Exchange Commission, and any other law enforcement agency designated by this Office, in connection with any investigation related to the matters described in Appendix A; (b) assist this Office in any investigation or prosecution arising out of the conduct described in this Agreement by providing logistical and technical support for any meeting, interview, grand jury proceeding, or any trial or other court proceeding; (c) use its best efforts to secure the attendance and truthful statements or testimony of any officer, agent or employee at any meeting or interview or before the grand jury or at any trial or other court proceeding; and (d) provide this Office, upon request, all non-privileged information, documents, records, or other tangible evidence about which this Office or any designated law enforcement agency inquires.<sup>1</sup>

It is understood that any assistance LUCENT may provide to federal criminal investigators shall be pursuant to the specific instructions and control of this Office and designated investigators.

It is understood that LUCENT shall adopt a set of internal controls, including a compliance code and compliance standards and procedures, as set forth in Appendix B.

It is understood that LUCENT agrees to pay a monetary penalty of \$1,000,000. LUCENT must pay this sum to the United States within ten (10) days of executing this

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<sup>1</sup> The Department reserves the right to request information, documents, records or other tangible evidence that may be subject to a claim of attorney client and/or attorney work product privilege. Similarly, Lucent reserves the right to refuse to provide such information, documents, records or other tangible evidence based upon the assertion of a valid claim of privilege.

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Agreement. LUCENT agrees that no tax deduction will be sought in connection with this payment.

It is understood that, should this Office determine that LUCENT has committed any crime during the term of this Agreement, has given false, incomplete, or misleading testimony or information, or has otherwise violated any provision of this Agreement, LUCENT shall thereafter be subject to prosecution for any federal violation of which this Office has knowledge, including perjury and obstruction of justice. Any such prosecution that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against LUCENT, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the expiration of the term of the Agreement plus one year. Thus, by signing this Agreement, LUCENT agrees that the statute of limitations with respect to any prosecution that is not time-barred on the date of this Agreement shall be tolled for the term of the Agreement plus one year.

It is understood that, if it is determined that LUCENT has committed any crime after signing this Agreement, has given false, incomplete, or misleading testimony or information, or has otherwise violated any provision of this Agreement: (a) all statements and admissions made by LUCENT to this Office or other designated law enforcement agents, including Appendix A hereto, and any testimony given by LUCENT before a grand jury or other tribunal, whether prior or subsequent to the signing of this Agreement, and any leads derived from such statements or testimony shall be admissible in evidence in any criminal proceeding brought against LUCENT; and (b) LUCENT shall assert no claim under the United States Constitution, any statute, Rule 410 of the Federal Rules of Evidence, or any other federal rule that such statements or any leads therefrom should be suppressed. By this Agreement, LUCENT waives all rights in the foregoing respects.

It is further understood that this Agreement does not bind any federal, state or local prosecuting authority other than this Office. This Office will, however, bring the cooperation of LUCENT to the attention of other prosecuting and other investigative authorities, if requested by LUCENT.

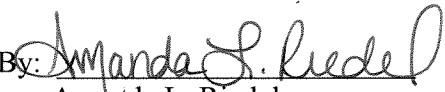
It is further understood that LUCENT and this Office may disclose this Agreement to the public.


With respect to this matter, from the date of execution of this Agreement forward, this Agreement supersedes all prior, if any, understandings, promises and/or conditions between this Office and LUCENT. No additional promises, agreements, and/or conditions have been entered into other than those set forth in this letter and none will be entered into unless in writing and signed by all parties.

Martin J. Weinstein, Esq.  
November 14, 2007

Very truly yours,

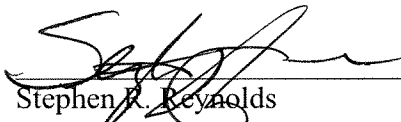
STEVEN A. TYRRELL  
Chief, Fraud Section

By:   
Amanda L. Riedel  
Trial Attorney, Fraud Section

  
Mark F. Mendelsohn  
Deputy Chief, Fraud Section

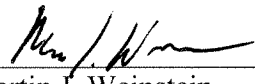
AGREED AND CONSENTED TO:

Lucent Technologies Inc.

By:   
Stephen R. Reynolds  
Vice President and Group General Counsel

12/5/07  
Date

APPROVED:

By:   
Martin J. Weinstein  
Willkie Farr & Gallagher LLP  
Counsel for Lucent Technologies Inc.

11/29/07  
Date

## APPENDIX A

### STATEMENT OF FACTS

This Statement of Facts is incorporated by reference as part of the Agreement, dated November ~~29<sup>th</sup>~~, 2007, between the United States Department of Justice, Criminal Division, Fraud Section (“this Office” or “the Department”) and Lucent Technologies Inc. and its subsidiaries and affiliates (collectively, “Lucent”).

#### I. Background

1. At all times relevant to the facts described herein, Lucent was a Delaware corporation headquartered in Murray Hill, New Jersey. Lucent first issued shares on the New York Stock Exchange on April 10, 1996, and its spin off from AT&T was closed on September 30, 1996. Lucent was an issuer as that term is used in the Foreign Corrupt Practices Act (FCPA), 15 U.S.C. §§ 78dd-1, *et seq.* Lucent designed and provided systems, services and software to telecommunications service providers. In November 2006, Lucent merged with the French telecommunications company Alcatel SA, forming Alcatel-Lucent, a French corporation headquartered in Paris, France and an issuer. Lucent survived as a wholly-owned subsidiary of Alcatel-Lucent. Lucent’s corporate headquarters are located in Murray Hill, New Jersey. Since 1996, Lucent has operated a subsidiary in China, called Lucent China. Lucent’s Chinese customers were generally state-owned telecommunications companies whose employees were foreign officials for purposes of the FCPA.

#### II. Travel and Education Expenditures

2. From at least 2000 to 2003, Lucent provided approximately 315 trips for Chinese government officials that included primarily sightseeing, entertainment and

leisure. These trips were requested and approved with the consent and knowledge of the highest Lucent China officials and with the assistance of Lucent employees in the United States, including at corporate headquarters in Murray Hill, New Jersey. Lucent improperly recorded expenses for these trips in its books and records and failed to provide adequate internal controls to monitor the provision of travel and other things of value to Chinese government officials.

**A. Pre-Sale Trips**

3. Between 2000 and 2003, Lucent provided Chinese government officials with presale trips to the United States to attend seminars or visit Lucent facilities, as well as to engage in sightseeing, entertainment and leisure activities. Lucent spent over \$1.3 million on at least 65 pre-sale visits. These pre-sale visits were typically requested and approved by officers of Lucent China and implemented by the Lucent China support team, based out of Lucent's headquarters in Murray Hill, New Jersey. Pre-sale trips were improperly recorded as sales and marketing expenses in Lucent's books and records.

4. In 2002 and 2003 alone, there were 24 Lucent-sponsored pre-sale trips for Chinese customers. Of these, at least 12 trips consisted of between a substantial amount and a majority of tourism and sightseeing. The individuals participating in the pre-sale trips paid for by Lucent during this period were senior level government officials, including the heads of state-owned telecommunications companies in Beijing and the leaders of provincial telecommunications subsidiaries.

5. In April 2001, six officers and engineers of a regional subsidiary of a large, national, state-owned telecommunications service provider in China visited the United States for two weeks at Lucent's expense. The trip consisted of five days spent

visiting Lucent's facilities in Illinois, Colorado and New Jersey, and the remaining nine days spent visiting Boston, Las Vegas, the Grand Canyon and Hawaii for strictly entertainment, travel and leisure purposes. This trip cost Lucent more than \$73,000. In internal documents associated with the planning of this trip, Lucent employees estimated this customer to be worth \$80 million in potential new business for Lucent.

6. Also in April 2001, a director of a regional, state-owned broadband provider in China requested that Lucent pay for her and a guest to visit the San Francisco area while she was in the United States on a personal vacation. The Lucent-sponsored portion of the trip included a half-day tour of a Lucent facility and two and a half days of sightseeing, entertainment and leisure at places such as the Golden Gate Bridge, Hearst Castle and Napa Valley. The trip cost Lucent \$3,789. One Lucent China employee involved in planning this trip noted that the trip was "outside of Lucent's normal scope of technical visits" and only approved the trip after learning of the past and future revenues associated with this customer and this official's decision making role for her employer.

7. In January 2003, Lucent paid over \$11,000 for the deputy manager of a subsidiary of a large, state-owned telecommunications service provider in China, his wife and his daughter to travel to Thailand and Hong Kong for a seven-day vacation with a Lucent salesperson and his wife. No official Lucent business activity took place during this trip. The trip was approved by Lucent China's Chief Operating Officer and retroactively approved by Lucent China's CEO. Internal Lucent documents associated with the planning of this trip indicate that the vacation was aimed at influencing the deputy manager and "strengthening the customer relationship" to expand the business relationship with the customer.

## **B. Post-Sale Visits**

8. From 2000 to 2003, Lucent and its Chinese government customers entered into contracts with provisions that required Lucent to provide trips to the United States and other locations for its government customers' employees. These trips were characterized in the contracts as "factory inspections" or "training." In fulfilling its contractual obligations, Lucent provided individuals chosen by Lucent's state-owned customers with trips to the United States and other countries involving little or no business content. Often, the customers dictated the substance and locations of the post-sale trips. Lucent funded and arranged the logistics, including airfare, hotels, meals, sightseeing tours and per diem, and Lucent representatives accompanied the customers' employees for the duration of the visits. In some cases, the trip participants were decision makers for their state-owned employers.

### **1. Factory Inspections**

9. Pursuant to certain contracts Lucent had with its Chinese government customers, Lucent was required to provide the customers' employees with "factory tours," which were originally intended to showcase technologies and products Lucent had sold to the customer. In 2001, however, Lucent began outsourcing its manufacturing so there were few if any Lucent factories for its Chinese customers to visit. Regardless, Lucent continued to pay for its Chinese government customers to visit the United States and other locations, even though the destinations the customers visited had no Lucent factories. These trips devolved into purely sightseeing, entertainment and leisure excursions.



10. In 2002 and 2003, Lucent paid for 46 factory inspection trips for Chinese customers' employees, 36 of which were to the United States, three of which were to Europe, three of which were to Australia, one of which was to Canada, one of which was to Japan and two of which were trips within China. Although the contracts specified that such trips were for the purpose of factory inspections, these trips consisted primarily or entirely of sightseeing to locations such as Disneyland, Los Angeles, San Francisco, Universal Studios, the Grand Canyon, Las Vegas, tours of Washington, D.C., tours of New York City, and stop-overs in Hawaii. The Lucent-sponsored factory visits typically lasted 14 days and cost Lucent \$25,000 - \$55,000 per trip. Lucent's contracts with its Chinese government customers often specified that Lucent had to provide the employees with a per diem while on the "factory inspection" trips of \$500 to \$1,000 per day, even though Lucent also paid for all lodging, transportation, food and entertainment expenses.

11. In November 2002, two delegations from another large, national, state-owned telecommunications enterprise in China visited the United States pursuant to a post-sale contract that required Lucent to bring employees "from the buyer to the U.S. for a factory inspection lasting two weeks." Under the terms of the contract, Lucent was "responsible for the expenses of international airfare, U.S. domestic travel, lodging and boarding in U.S. and a reasonable allowance."

12. The two delegations totaled 19 people and the two-week trips included each delegation spending one day at a Lucent factory in New Jersey. The Chinese government employees spent the remainder of each trip sightseeing in New York City, Washington, D.C., Niagara Falls, Las Vegas, Los Angeles, San Diego and Hawaii, at a cost to Lucent of over \$130,000. Lucent documents indicate that Lucent was hoping to

influence one of the state-owned company's "key decision makers" to help Lucent obtain more than \$4 million in business from the company in future quarters.

13. In December 2001, Lucent provided six delegates from another regional subsidiary of a large, national, state-owned telecommunications service provider in China, with an 11 day tour of the United States and Hong Kong at a cost of over \$33,000. As a result of the 9/11 attacks, the customers refused to visit any Lucent facilities on the east coast, as originally suggested in the trip's itinerary. Lucent complied with its customer's demands and reprogrammed the visit, resulting in the trip consisting entirely of sightseeing with no business purpose or factory visit. In an internal Lucent e-mail, a Lucent representative referred to the state-controlled company as "a very special case" in light of the fact that Lucent had already received \$50 million in sales from the company and additional business opportunities totaling \$2 billion - \$3 billion existed for the future.

14. In some cases, signatories to the contracts that called for "factory inspection" trips participated in some of the Lucent-funded excursions. These trips were approved by the Lucent China COO. The COO authorized administrative employees at Lucent headquarters to spend up to \$100,000 for each trip. No additional approvals were required for post-sale trips for Chinese government employees.

## **2. Training Visits**

15. Lucent also provided employees of its Chinese government customers with post-sale training visits, which included some training on Lucent products as well as sightseeing, entertainment and leisure. In addition to offering training, Lucent typically paid for airfare, meals, lodging, and transportation between the training facilities and the

locations of the sightseeing, entertainment and leisure activities, and provided per diems for the Chinese customers' employees.

16. In 2002 and 2003, Lucent paid for nine training trips for its Chinese government customers: eight to the United States and one to Germany. These trips were mandated in Lucent China's sales contracts and, like the factory inspections, the contracts provided for the employees of the Chinese government customers to receive a per diem of \$500 to \$1,000 per day, in addition to Lucent funding all of the Chinese government customers' expenses. These training visits included trips to Disney World and stop-overs in Hawaii.

17. Lucent hosted a delegation of six employees from another regional subsidiary of a large, national, state-owned mobile phone operator in China for a 21-day "training" visit in May 2002. The delegation consisted of engineers, including one individual who supervised the company's planning and development department. Lucent employees described individuals from the delegation as "influencers." The 21-day visit consisted of approximately five days of training at a Lucent facility in Orlando, Florida, and approximately 16 days of sightseeing, entertainment and leisure in San Francisco, Los Angeles, San Diego, Las Vegas, the Grand Canyon, New York City, Washington, D.C. and Hawaii. Lucent spent \$46,828.08 funding the trip, of which, over \$11,000 was spent on airline tickets, over \$8,000 was spent on per diems, over \$8,000 was spent on transportation costs in and around the aforementioned cities and over \$2,000 was spent on tickets to attractions.

18. Lucent China's post-sale visits were typically requested and approved by employees and officers of Lucent China and implemented by employees at Lucent's

headquarters in New Jersey. These expenses were booked by Lucent as cost of goods sold against revenues obtained from the underlying contracts. In all, Lucent spent over \$6 million on post-sale factory inspections and training visits for employees of state-owned customers in China.

### **C. Educational Opportunities**

19. On at least four separate occasions from 2000 to 2003, Lucent paid or offered to pay for educational opportunities for relatives or associates of Chinese government officials, some of whom were in a position to influence China's use of Lucent-compatible technologies. These educational opportunities included: (a) enrollment in MBA and other management programs, (b) Lucent internships with stipends, and (c) an offer to pay for private boarding school tuition. Lucent spent over \$100,000 during this period providing these educational opportunities to relatives or associates of Chinese officials.

20. On December 19, 2000, the Chairman of Lucent China approved payments totaling over \$71,000 to cover the tuition and living expenses of an employee of a Chinese government ministry, who was obtaining a master's degree in international management from the Thunderbird School of Management Training in Beijing, China. At the time the payments were approved, the employee receiving the master's degree was an assistant to a committee chairman at the ministry. This committee was at least partially responsible for choosing which mobile telecommunications platform China would adopt. Lucent recorded these payments in its books and records as marketing expenses.

21. Lucent also paid \$21,687 for a deputy general manager of another regional, state-owned telecommunications operator in China, to obtain an MBA at Wuhan University in China. The general manager of the telecommunications company requested Lucent pay for this degree in lieu of the factory inspection tour that was contemplated in a contract between Lucent and the state-owned telecommunications operator.

22. In 2003, Lucent provided a paid internship to the daughter of a Chinese government official working at the Chinese embassy in the United States. A Lucent e-mail describes this official as “Lucent’s key contact in China.” This e-mail also states that Lucent should find an internship for this official’s daughter because “it is very important for Lucent to continue building a good relationship with the Chinese embassy, which has close ties to leaders in China when it comes to wireless standards and vendor selections.” Lucent spent over \$5,000 to fund the internship and paid for the official’s daughter’s travel expenses, lodging expenses and a \$3,600 stipend. Lucent improperly recorded these payments as marketing expenses in its books and records.

23. As a result, there is competent and credible evidence that, during this period, Lucent failed to make and keep books, records or accounts which, in reasonable detail, accurately and fairly reflected the transactions and disposition of its assets and failed to devise and maintain an adequate system of internal accounting controls with respect to foreign sales activities sufficient to assure compliance with the FCPA.

## APPENDIX B

In order to address deficiencies in Lucent Technologies Inc.'s internal controls, policies and procedures regarding compliance with the Foreign Corrupt Practices Act ("FCPA"), 15 U.S.C. §§ 78dd-1, *et seq.*, and other applicable anticorruption laws, Lucent Technologies Inc. and its subsidiaries and affiliates (collectively, "LUCENT") agree to conduct, in a manner consistent with all of its obligations under this Agreement, a review of its existing internal controls, policies and procedures.

Where necessary and appropriate, LUCENT agrees to adopt new or modify existing internal controls, policies and procedures in order to ensure that it maintains: (a) a system of internal accounting controls designed to ensure that LUCENT makes and keeps fair and accurate books, records and accounts; and (b) a rigorous anti-corruption compliance code, standards and procedures designed to detect and deter violations of the FCPA and other applicable anti-corruption laws. At a minimum, this should include, but ought not be limited to, the following elements:

1. A clearly articulated corporate policy against violations of the FCPA and other applicable anti-corruption laws;
2. A system of financial and accounting procedures, including a system of internal accounting controls, designed to ensure the maintenance of fair and accurate books, records and accounts;
3. Promulgation of a compliance code, standards and procedures designed to reduce the prospect of violations of the FCPA, other applicable anti-corruption laws, and LUCENT's compliance code. These standards and procedures should apply to all directors, officers, and employees and, where necessary and appropriate, outside parties

acting on behalf of LUCENT in a foreign jurisdiction, including agents, consultants, representatives, distributors, teaming partners, and joint venture partners (collectively referred to as “agents and business partners”).

4. The assignment of one or more senior corporate officials of LUCENT to the implementation and oversight of compliance with policies, standards and procedures regarding the FCPA and other applicable anti-corruption laws. Such corporate official(s) shall have the authority to report matters directly to LUCENT’s Audit Committee of the Board of Directors.

5. Mechanisms designed to ensure that LUCENT’s policies, standards and procedures regarding the FCPA and other applicable anti-corruption laws are effectively communicated to all directors, officers, employees and, where necessary and appropriate, agents and business partners. This should include: (1) periodic training for all directors and officers, and, where necessary and appropriate, employees, agents and business partners; and (2) annual certifications by all directors and officers, and, where necessary and appropriate, employees, agents and business partners, certifying compliance therewith.

6. An effective system for reporting suspected criminal conduct and/or violations of the compliance policies, standards, and procedures regarding the FCPA and other applicable anticorruption laws for directors, officers, employees, agents and business partners.

7. Appropriate disciplinary procedures to address, among other things, violations of the FCPA, other applicable anti-corruption laws, and LUCENT’s

compliance code, standards and procedures by LUCENT's directors, officers, and employees.

8. Appropriate due diligence requirements pertaining to the retention and oversight of agents and business partners.

9. Standard provisions in agreements, contracts, and renewals thereof with all agents and business partners that are reasonably calculated to prevent violations of the FCPA and other applicable anti-corruption laws, which may, depending upon the circumstances, include: (1) anticorruption representations and undertakings relating to compliance with the FCPA and other applicable anti-corruption laws; (2) rights to conduct audits of the books and records of the agent or business partner to ensure compliance with the foregoing; and (3) rights to terminate an agent or business partner as a result of any breach of anti-corruption laws or representations and undertakings related to such matters.