



2. In authorizing and improperly recording the payments for approximately 315 trips for Chinese government officials that had a disproportionate amount of sightseeing, entertainment and leisure, Lucent violated the books and records and internal control provisions of the Foreign Corrupt Practices Act of 1977 (“FCPA”). Lucent lacked the internal controls to detect and prevent trips intended for sightseeing, entertainment and leisure, rather than business purposes. Lucent also improperly recorded many of the trips in its books and records. For example, over 160 trips were booked to Lucent’s “Factory Inspection Account” even though the customers did not visit a Lucent factory at any time during the trip.

3. Lucent’s violations occurred because Lucent failed, for years, to properly train its officers and employees to understand and appreciate the nature and status of its customers in China in the context of the FCPA. Many of Lucent’s Chinese customers were state-owned or state-controlled companies that constituted instrumentalities of the government of China and whose employees, consequently, were foreign officials under the FCPA. The Chinese foreign officials who traveled at Lucent’s expense were often identified by Lucent in its internal documents as “decision makers” with respect to awarding new business. Notwithstanding these facts, the chairman and president of Lucent’s wholly-owned subsidiary in China (“Lucent China”) and other Lucent China executives authorized and paid for Chinese government officials to visit the United States and other countries without appropriate oversight concerning the purpose and content of those visits.

4. Plaintiff brings this action to enjoin such acts and practices, which violate Sections 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

5. The defendant will, unless restrained and enjoined, continue to engage in the acts and practices set forth in this complaint and in acts and practices of similar purport and object.

### **JURISDICTION**

6. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. The Defendant made use of the means or instrumentalities of interstate commerce, of the mails, or the facilities of a national securities exchange in connection with the acts, transactions, practices and courses of business alleged herein.

### **DEFENDANT**

7. **Lucent**, during the relevant time period, was a provider of communications networks for telecommunications service providers; it designed and provided systems, services and software. Lucent, which was incorporated in Delaware in November 1995, was formerly part of AT&T Corporation's systems and technology unit but was spun off from AT&T in 1996. On November 30, 2006, Lucent completed a merger with Alcatel SA. The new entity, Alcatel-Lucent, is incorporated in France and has its world headquarters in Paris, France. Lucent survives as a wholly-owned subsidiary of Alcatel-Lucent. During the relevant period of time, Lucent's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and was listed on the New York Stock Exchange. Thus, during the relevant time period, Lucent was an "issuer" as that term is defined in Section 3(a)(8) [15 U.S.C. § 78(c)(a)(8)] of the Exchange Act. Following the merger, American Depositary Shares of Alcatel-Lucent began trading on the New York Stock Exchange.

## **FACTS**

### **Lucent China Business Background**

8. In 1997, Lucent was awarded a contract by the Chinese government, in which Lucent was to provide a high-speed optical transmission system for China. In 1998, Lucent and the Chinese Ministry of Post and Telecommunication signed a Memorandum of Cooperation in the Telecommunication Industry. In 2000, Lucent set up its largest manufacturing center outside the United States in Qingdao, China, and launched a Bell Labs research center in Beijing. Between 2001 and 2003, Lucent signed several contracts worth hundreds of millions of dollars each with Chinese customers. By early 2002, for example, Lucent had sold 20 million lines of switching equipment in the China market. By 2003, revenues from its customers in China accounted for 11% of Lucent's consolidated revenues.

### **Lucent China Trip Logistics**

9. From at least 2000 to 2003, Lucent provided and paid for approximately 1,000 Chinese government officials to take approximately 315 trips to the United States that contained a disproportionate amount of sightseeing, entertainment and leisure time and expense in comparison to the business content of the trips. On some occasions, the Chinese officials spent as little as one or two days on legitimate business, while spending up to two weeks on Lucent-funded sightseeing, entertainment and leisure. Lucent generally categorized the trips as "pre-sale" or "post-sale," depending on whether the company was seeking new business from the given customer ("pre-sale"), or the trip was made in connection with an existing contractual arrangement ("post-sale"). During this period, Lucent spent more than \$1 million on approximately 55 "pre-sale" trips and more than \$9 million on approximately 260 "post-sale" trips.

10. Lucent China funded the travel for the Chinese officials through its sales department. In order to arrange for a given trip, Lucent employees typically prepared a “Customer Visit Request Form” that provided information about the proposed travel. The form, which was used to request and obtain internal approval from Lucent China executives for the expenditures on the trips, included information about the identity of the travelers and the purpose of the trip. Each Request Form, for example, asked: “Are the visitors decision-maker/influencers?” Typically, the response was in the affirmative. The Forms also provided space for the Lucent sales staff to indicate whether “Sightseeing/Entertainment” was “required” and for other information about the proposed arrangements, including the quality of requested accommodations.

11. Upon approval by Lucent China executives, Lucent China employees based in Lucent’s U.S. headquarters in New Jersey arranged the logistics of the trips. These employees, known as the China Operations Support Team (“China Ops”), established itineraries and typically utilized one of two travel agents to make flight, hotel, and other arrangements. These employees also were often responsible for setting up the business content of given trips by, for example, arranging for a Lucent executive to meet the visiting Chinese delegation. The proposed itineraries, including those that explicitly provided for minimal business activity in relation to the entertainment and leisure time and expense, were reviewed and approved by Lucent China staff and executives.

12. Although Chinese government officials were routinely identified by name, organization, and title in the Customer Visit Request Forms, Lucent China’s internal controls provided no mechanism for assessing whether any of the trips violated the FCPA. Moreover, Lucent employees made little or no inquiry regarding whether the Chinese visitors were

government officials under the FCPA, and no Lucent policies or controls were triggered with respect to whether the entertainment and leisure activities Lucent paid for could constitute things of value under the FCPA, or whether the purpose of the visit may have violated the anti-bribery provisions of the FCPA.

### **“Pre-Sale” Visits**

13. From at least 2000 to 2003, Lucent provided approximately 330 Chinese government officials of various levels with all-expense-paid visits to the United States and elsewhere to participate in conferences or seminars held or attended by Lucent employees, visit Lucent facilities, and engage in sightseeing, entertainment and leisure activities. Lucent spent more than \$1 million on at least 55 of these visits, known as “pre-sale” visits, and used them to discuss business opportunities with certain high-ranking Chinese government officials. The pre-sale visits were typically requested and approved by employees and officers of Lucent China and implemented by Lucent’s China Ops team.

14. For example, in June 2002, Lucent paid more than \$34,000 for the Deputy General Manager of a Chinese government majority-owned telecommunications company (“Customer No. 1”) and the Deputy Director of the Technical Department of Customer No. 1 to visit the United States. This visit consisted of three days of business activity and more than five days of sightseeing, entertainment and leisure, including visits to Disney World and Hawaii. In several internal documents related to the trip, Lucent identified the Deputy General Manager of Customer No. 1 as a “key customer” and “decision maker” for Code Division Multiple Access (“CDMA”) business. In describing the trip, a Lucent e-mail states that the visit was “very important for us” because it was “an opportunity for enhancing [Lucent’s] relationship with [the deputy manager of Customer No. 1] before [the] Phase 2 CDMA project.” In October 2002,

Lucent was awarded a portion of the CDMA Phase 2 project by Customer No. 1, worth a reported \$428 million to Lucent.

15. On another occasion, in April 2001, six officers and engineers of Customer No. 2, an existing Lucent customer that was a subsidiary of a Chinese government majority-owned telecommunications company, visited the United States for a period of two weeks at Lucent's expense. One of Lucent's objectives for the trip was to negotiate a memorandum of understanding between Lucent and Customer No. 2. Although the Chinese officials spent five days visiting Lucent facilities in Illinois, New Jersey, and Colorado, they spent nine days traveling, at Lucent's expense, between cities and visiting Boston, Las Vegas, the Grand Canyon, and Hawaii for sightseeing, entertainment and leisure activities. In its internal documents, Lucent identified the purpose of the trip, which cost Lucent more than \$73,000, as a "gold [sic] opportunity for Lucent to introduce our network operation center to [Customer No. 2]." Lucent also noted that Customer No. 2 was considering the services of competing vendors for particular telecommunications products. In connection with authorizing the pre-sale visit, Lucent estimated \$500 million in revenues in potential business with Customer No. 2. Lucent identified these six visitors from Customer No. 2 in internal documents as "decision-makers or influencers," and one of the visitors, a vice president at Customer No. 2, reported directly to the head of Customer No. 2.

16. Many of the pre-sale visits were booked improperly in Lucent's books and records. For example, Lucent's expenses for the Customer No. 1 visit described above were booked as "Services Rendered – Other Services." Lucent used this expense account to credit certain "other services" expenses, and it was not intended to be used as a repository for travel expenses pertaining to pre-sale trips. In addition, Lucent's expenses for the Customer No. 2 visit

described above were booked as a “Transportation International” expense. This expense account was legitimately to be used only for “costs of international freight forwarded and transportation provider services where the product crosses country borders.” Lucent also improperly booked the costs of several other similar customer or potential customer pre-sale visits as “Transportation International” expenses.

#### **“Post-Sale” Visits**

17. From at least 2000 to 2003, Lucent and its Chinese government customers typically included provisions in their contracts requiring Lucent to provide these customers with expense-paid trips to the United States and other nations under the labels of “factory inspections” or “training.” These trips were referred to as “post-sale” visits because Lucent’s obligation to provide the trips arose pursuant to existing contracts. Under the guise of fulfilling its contractual obligations, Lucent paid more than \$9 million on approximately 260 “post-sale” trips to the United States and other nations that often involved little or no business content. More than 850 individuals, chosen by Lucent’s Chinese customers, made the trips. Often, the customers dictated the content and locations of the trips. Lucent personnel accompanied customers during the visits, arranged the logistics of the trips and paid for airfare, hotel accommodations, meals, sightseeing tours, and per diems. Lucent China employees and executives requested and approved these “post-sale” visits and Lucent’s China Ops Team implemented them.

#### **“Factory Inspections”**

18. Some of the “post-sale” visits were ostensibly for factory inspections. Under certain contracts with its Chinese customers, Lucent was obligated to provide “factory inspection” tours, which were intended to demonstrate to the customers the technologies and products that Lucent was providing to them under their contract. Beginning in approximately

2001, however, Lucent began relocating its manufacturing operations to various locations, including China, leaving few factories in the United States for the customers to visit. Rather than provide factory inspections to the Chinese customers in locations where Lucent actually operated factories -- as the contracts literally required -- Lucent arranged for its customers to visit the United States and other locations, including Australia and Europe, even though the locations they visited had no Lucent factories. The visits became primarily sightseeing, entertainment and leisure trips, although one day of the visit would generally involve touring Lucent's headquarters or a Lucent facility (but not a factory) in order to create the appearance of legitimacy.

19. Lucent employees knew that the company provided purported factory inspection tours to Chinese officials that involved little or no business purpose and that false descriptions of the "factory tours" could be used to help the Chinese customers obtain visas or get through immigration controls in the United States. For example, in one instance, a Lucent employee stated in an e-mail that an invitation letter to a Chinese official, purportedly including a factory inspection in its itinerary, could be used to "verify this visit to INS upon [the customer's] arrival to San Francisco. . . . However, we have concerns as well because the whole itinerary shows this trip is just for sightseeing without business purpose. If the INS officers check their flight ticket and visit program, we think they will get [into] trouble." Despite these risks, Lucent sponsored the customers' entry into the United States under the pretense of a business trip, while knowing that only sightseeing, entertainment and leisure activities would be taking place.

20. In approximately June 2001, Lucent paid for six employees of a unit of a Chinese-government-owned investment company ("Customer No. 3") to go sightseeing in Niagara Falls, Las Vegas, the Grand Canyon, and elsewhere as part of a "factory inspection." In this instance, the Chinese officials had specific requests for sightseeing locales that the customer

communicated to Lucent, and Lucent made efforts to accommodate the visitors' desires. The visitors were described in Lucent's internal documents as "decision-makers" or "influencers" and included two Deputy Division Directors for Customer No. 3. A Lucent e-mail discussing the coordination and planning of the trip stated: "Please pay special attention on [sic] this customer request from [Customer No. 3] . . . . [Customer No. 3] is planning for the Phase-2 (South-West) backbone expansion and we are already facing competition from [two competing telecommunications companies]." Another Lucent e-mail stated: "I know it is not easy to arrange [Customer No. 3] to meet operators in U.S. But we need to do this . . . . We are fighting for 20M expansion project with [a competing telecommunications company]. One thing customer complained about [to] us that [sic] [this same competing telecommunication company] agreed to arrange" meetings with operators in the United States. The e-mail continued: "We have to agree to this request under such competition." During this June 2001 trip, Lucent successfully obtained the Customer No. 3 Backbone ONG Phase 2 contract, valued at \$23 million. The Chinese officials visited New York, Washington, Niagara Falls, Las Vegas and the Grand Canyon on this two week trip, approximately half of which was spent on leisure activities.

21. Lucent improperly recorded the \$46,854 cost for the Customer No. 3 visit as a "Lodging" expense. According to internal Lucent documents, this expense account was to be used for "the cost of lodging incurred by or on behalf of Lucent employees on Company business." In this instance, Lucent customers, not Lucent employees, generated the sightseeing, entertainment, leisure and business travel costs, and the expenses Lucent improperly recorded went well beyond lodging.

22. In November 2002, two delegations from Customer No. 1 visited the United States pursuant to a contract that required Lucent to invite representatives "from the Buyer to the

United States for the Factory Inspection for a period of two weeks.” Pursuant to the contract, Lucent was “responsible for the expenses of international airfare, US domestic travel, lodging and boarding in the US, and [a] reasonable allowance.” The two delegations totaled nineteen people, and each group’s two-week trip involved just one day at Lucent’s Holmdel, New Jersey factory. The rest of the time was spent on sightseeing, entertainment and leisure activities in locations such as New York City, Washington, D.C., Niagara Falls, Las Vegas, Los Angeles, the Grand Canyon, San Diego and Hawaii at a cost to Lucent of over \$130,000. Although the trips were designated in the company’s books and records as “factory inspections,” Lucent internal communications stated that these “post-sale” visits were actually used to conduct “pre-sale” type sales pitches for Lucent products. More specifically, Lucent recognized that “[Customer No. 1] currently is planning to invest in their Network Management systems,” and that there was expected to “be an approx. 4-million dollar opportunity for Lucent” in upcoming quarters. Consequently, during the trip, Lucent sought to promote certain of its network management products to the Chinese customers, which included “one of the key decision makers for their network management system upgrade.” Lucent improperly recorded expenses for this Customer No. 1 visit as “Services Rendered – Other Services.”

23. In December 2001, Lucent paid \$33,600 for six employees of a subsidiary of a Chinese-government-majority-owned telecommunications company (“Customer No. 4”) to visit the United States for ten days of sightseeing, entertainment and leisure, including trips to Disneyland, the Grand Canyon and Hawaii. Lucent, as noted in its internal documents, foresaw \$2-3 billion in potential business opportunities with Customer No. 4, with possible competition from other telecommunications companies which were perceived by the customer to have price and service advantages over Lucent. The visitors, whom Lucent identified as “decision-

maker/influencers,” refused to participate in the east coast portion of the trip, which would have included a visit to Lucent facilities, because of their concerns following the events of September 11, 2001. Nevertheless, the Chinese visitors proceeded to travel to the United States at Lucent’s expense solely for sightseeing, entertainment and leisure purposes. Lucent improperly recorded its expenses for these visitors’ sightseeing trip in its “Factory Inspection” account, despite the fact that there had been no visit to a Lucent factory at any point during the visit.

#### “Training” Visits

24. Lucent also provided customers with post-sale “training” visits that were designed to offer some training with respect to Lucent’s products, but often included extensive sightseeing, entertainment and leisure activities. A typical training visit involved engineers or technical employees from Chinese government owned or controlled companies who visited the United States and received some bona fide training at a Lucent facility, but were treated to a disproportionate amount of sightseeing, entertainment and leisure activities, as well as per diems, in relation to the time and expense spent on the legitimate training. Lucent also paid for the transportation costs, meals, and lodging for its customers when they traveled from the training facility to other non-training related locations.

25. On at least one occasion, Lucent hosted a delegation of six engineers from a subsidiary of a Chinese-government-majority-owned telecommunications company (“Customer No. 5”), for a twenty-one day training visit in the United States in May 2002. The delegation consisted entirely of engineers from Customer No. 5, one of whom supervised Customer No. 5’s planning development department. The visitors were described on Lucent’s Customer Visit Request Form as “influencers.” Lucent identified in its internal documents a potential \$6 million business opportunity in 2002 with Customer No. 5 for purchase of Lucent’s Synchronous Digital

Hierarchy product. The visit consisted of five days of Lucent training in Orlando, Florida, and, thereafter, sixteen days of sightseeing, entertainment and leisure in locations such as San Francisco, Los Angeles, San Diego, Las Vegas, the Grand Canyon, New York City, Washington, D.C., and Hawaii. Of the \$46,828.08 bill, more than \$11,000 was spent on airline tickets, more than \$8,000 on per diems, more than \$8,000 on transportation around and between the various cities, and more than \$2,000 on tickets to various tourist attractions. The expenses for this trip were improperly recorded in Lucent's accounting records as "Service Rendered – Other Services."

### **FIRST CLAIM FOR RELIEF**

#### **Violations of Section 13(b)(2)(A) of the Exchange Act**

26. Paragraphs 1 through 26 above are realleged and incorporated by reference herein.
27. As set forth more fully above, Lucent failed to make and keep books, records, or accounts that, in reasonable detail, accurately and fairly reflected the transactions and disposition of its assets.
28. As a result of the foregoing, Lucent violated Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

### **SECOND CLAIM FOR RELIEF**

#### **Violations of Section 13(b)(2)(B) of the Exchange Act**

29. Paragraphs 1 through 26 above are realleged and incorporated by reference herein.

30. As set forth more fully above, Lucent failed to devise, maintain, and implement a system of internal accounting controls sufficient to provide reasonable assurances that payments were made in accordance with management's general or specific authorization.

31. As a result of the foregoing, Lucent violated Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)].

**PRAYER FOR RELIEF**

WHEREFORE, the Securities and Exchange Commission respectfully requests that this Court enter a Final Judgment:

(a) permanently restraining and enjoining defendant Lucent, its officers, agents, employees, assigns, attorneys, and those persons in active concert or participation with them who receive actual notice of the Final Judgment, and each of them, from violating Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act;

(b) ordering defendant Lucent to pay civil penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

(c) granting such other and further relief as this Court deems just and appropriate under the circumstances.

Dated: December 21, 2007  
Washington, D.C.

  
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