

***Alcatel USA, Inc.***  
***Consolidated Retirement***  
***Plan***

***Financial Statements***  
***Years Ended December 31, 2006 and 2005,***  
***and Independent Auditors' Report***

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

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NOTE: The accompanying financial statements have been prepared for the purpose of filing with the Department of Labor's Form 5500. Supplemental schedules required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because of the absence of the conditions under which they are required.

## INDEPENDENT AUDITORS' REPORT

To the Plan Administrator and Participants of the  
Alcatel USA, Inc. Consolidated Retirement Plan:

We were engaged to audit the statements of net assets available for benefits and changes in net assets available for benefits as of December 31, 2006 and 2005, and for the years then ended of the Alcatel USA, Inc. Consolidated Retirement Plan (the "Plan") and the statements of accumulated plan benefits and changes in accumulated plan benefits as of January 1, 2006 and 2005, and for the years then ended. These financial statements are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Notes 3 and 5, which was certified by JP Morgan Chase Bank, the trustee of the Plan, except for comparing the information with the related information included in the financial statements. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained certifications from the trustee that the information as of and for the years ended December 31, 2006 and 2005, provided to the plan administrator by the trustee, is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to express, and do not express, an opinion on the accompanying financial statements. The form and content of the information included in the financial statements, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

*Deloitte & Touche LLP*

October 11, 2007

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2006 AND 2005

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	2006	2005
<b>ASSETS</b>		
INVESTMENT IN MASTER TRUST, AT FAIR VALUE (Notes 3 and 5)	\$ 213,542,422	\$ 177,531,454
EMPLOYER CONTRIBUTIONS RECEIVABLE	<u>3,076,321</u>	<u>5,224,451</u>
Total assets	216,618,743	182,755,905
<b>LIABILITY - ACCRUED ADMINISTRATIVE EXPENSES</b>	<u>95,968</u>	<u>198,938</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 216,522,775</u>	<u>\$ 182,556,967</u>

See notes to financial statements.

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS YEARS ENDED DECEMBER 31, 2006 AND 2005

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	2006	2005
ADDITIONS:		
Employer contributions	\$ 30,402,744	\$ 34,187,020
Plan's interest in Master Trust investment income (Notes 3 and 5)	<u>23,655,074</u>	<u>7,976,674</u>
Total additions	54,057,818	42,163,694
DEDUCTIONS:		
Benefit payments	18,564,440	23,965,715
Administrative expenses	<u>1,527,451</u>	<u>1,752,743</u>
Total deductions	<u>20,091,891</u>	<u>25,718,458</u>
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	33,965,927	16,445,236
TRANSFER TO ALCATEL DATA NETWORKS, INC. RETIREMENT PENSION PLAN	(119)	-
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>182,556,967</u>	<u>166,111,731</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$ 216,522,775</u>	<u>\$ 182,556,967</u>

See notes to financial statements.

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

## STATEMENTS OF ACCUMULATED PLAN BENEFITS JANUARY 1, 2006 AND 2005

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	2006	2005
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS:		
Vested benefits:		
Active	\$ 72,708,805	\$ 75,069,398
Terminated and deferred disabled	51,071,787	46,638,176
Retirees and disabled participants in pay status	<u>80,968,481</u>	<u>85,242,716</u>
Total vested benefits	204,749,073	206,950,290
Nonvested benefits	<u>14,675,096</u>	<u>17,492,431</u>
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	<u>\$ 219,424,169</u>	<u>\$ 224,442,721</u>

See notes to financial statements.

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

## STATEMENTS OF CHANGES IN ACCUMULATED PLAN BENEFITS YEARS ENDED JANUARY 1, 2006 AND 2005

	2006	2005
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS:		
Beginning of year	\$ 224,442,721	\$ 195,119,054
INCREASE (DECREASE) DURING THE YEAR ATTRIBUTABLE TO:		
Benefits accumulated and actuarial losses	72,919	2,070,479
Interest due to decrease in discount period	14,869,465	12,695,047
Change in actuarial assumptions (Note 4)	4,004,779	-
Benefits paid	(23,965,715)	(27,522,485)
Transfers in of plans of affiliates (Note 1)	-	42,080,626
Net increase (decrease)	<u>(5,018,552)</u>	<u>29,323,667</u>
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS, END OF YEAR	<u>\$ 219,424,169</u>	<u>\$ 224,442,721</u>

See notes to financial statements.

# ALCATEL USA, INC. CONSOLIDATED RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 1. DESCRIPTION OF THE PLAN

The following brief description of the Alcatel USA, Inc. Consolidated Retirement Plan (the "Plan") provides only general information. Participants should refer to the plan document for a more complete description.

*General* - The Plan, previously the Alcatel Network Systems, Inc. Consolidated Salaried Retirement Plan, was formed when Alcatel USA, Inc. (the "Company"), previously Alcatel Network Systems, Inc., acquired the net assets of the Network Transmission Systems Division of Rockwell International Corporation. The Plan became effective on August 28, 1991. The Plan is a defined benefit pension plan covering all salaried employees. Effective September 1998, the Company's parent purchased DSC Communications Corporation ("DSC"), which merged with the Company on December 31, 1998. As a result, effective March 27, 1999, the Plan was amended to include former DSC salaried and hourly employees. Effective December 31, 1999, assets of the Alcatel USA, Inc. Consolidated Hourly Retirement Plan were merged with the Plan.

Effective January 1, 2001, participation in the Plan was frozen. Employees receiving offer letters in the fourth quarter of 2000 and beginning employment prior to February 1, 2001, were eligible for participation in the Plan. All other employees starting employment with the Company beginning January 1, 2001, are not eligible to participate in the Plan.

Effective December 31, 2001, the Alcatel USA, Inc. Retirement Plan for Production Employees ("Production Employees Plan") was merged into the Plan.

Effective December 31, 2002, the Company elected to freeze pensionable earnings and credited service for all participants in the Plan. All other provisions of the Plan were not affected.

Effective December 31, 2004, the Alcatel NA Cable Systems, Inc. Salaried Pension Plan, the Alcatel NA Cable Systems, Inc. Hourly Pension Plan, and the Radio Frequency Systems, Inc. Non Union Hourly Pension Plan were merged into the Plan. Effective December 31, 2004, these plans' prior sponsor, Radio Frequency Systems, Inc. ("RFS"), elected to freeze participation and benefits in conjunction with the plans' merger into the Plan and became a participating employer within the Plan. Commensurate with these plan mergers, total related accumulated plan benefit obligations of \$42,080,626 were transferred into the Plan.

Alcatel USA, Inc. is the Plan's sponsor. The trustee of the Plan is JPMorgan Chase Bank (the "Trustee"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

On April 2, 2006, the Company and Lucent entered into a definitive merger agreement. Completion of the merger occurred on November 30, 2006, and Lucent became a wholly owned subsidiary of Alcatel. In addition, Alcatel, the parent company, changed its name to Alcatel-Lucent. As discussed in Note 8, as a result of this transaction, effective March 1, 2007, the Plan was merged into the Lucent Retirement Income Plan ("Lucent Plan"). Plan assets and obligations were transferred to the Lucent Plan during 2007.



**Eligibility** - Eligibility for benefits was determined by length of service. Vesting service is used to determine a participant's right to receive a benefit. Credited service is used to determine the amount of the benefit payable to the participant. Credited service is earned while a participant is actively employed as an employee covered by this Plan. Both services are measured in years and fractions of years (one month equals 1/12 of a year). Participation in the Plan is frozen.

**Vesting** - Participant vesting occurs upon completion of five years of vesting service, at which point participants are 100% vested.

**Contributions** - The Company generally contributes the actuarially determined amounts necessary to provide the Plan with sufficient assets to meet the benefits payable to the Plan participants at normal retirement. The Company made contributions to the Plan to meet the minimum funding requirements under ERISA for the 2006 and 2005 plan years, as determined by the Plan's actuaries. Included in the minimum funding amount is a provision to reduce the deficit between the net assets available for benefits and accumulated plan benefits. The Company believes this provision is sufficient to reduce the deficit. No participant contributions are required or permitted.

**Pension Benefits** - As defined in the Plan Agreement, the Plan is a single plan within the meaning of section 414(l) of the Internal Revenue Code, which includes nine plan documents.

Benefits accrued by participants have been derived from their respective plan formula, depending upon whether the participant either belonged to a plan previously merged into the Plan or began participation in the Plan as an employee of the Company. Benefits were accrued within the Plan under the following plans:

- The Alcatel USA, Inc. Cash Balance Plan
- The Alcatel Network Systems Retirement Plan
- The Alcatel Network Systems, Inc. Salaried Retirement Plan
- The Alcatel NA, Inc. Retirement Plan for Salaried Employees
- The Alcatel USA, Inc. Consolidated Hourly Retirement Plan
- The Alcatel USA, Inc. Retirement Plan for Production Workers
- The Alcatel NA Cable Systems, Inc. Hourly Pension Plan
- The Alcatel NA Cable Systems, Inc. Salaried Pension Plan
- The Radio Frequency Systems, Inc. Non-Union Hourly Pension Plan

Effective June 1, 1997, The Alcatel USA, Inc. Cash Balance Plan ("Cash Balance Plan") was added as an effort to increase employee awareness and appreciation of the value of their retirement benefits. Salaried and hourly employees hired on and after June 1, 1997 and April 1, 1999, respectively, have their retirement benefits calculated under the new Cash Balance Plan formula only. To ensure maximum benefits for employees hired prior to June 1, 1997, retirement benefits will be calculated using the greater of their existing formula or the new Cash Balance Plan formula.

The Cash Balance Plan formula credits the amount equal to 4% of pensionable pay each month. The account is then credited monthly with interest, based on the 24-month average of 10-year Treasury rates as of the previous October. Upon retiring or leaving, vested participants are eligible for a calculated benefit.

**Benefit Payments** - Upon termination of service, the participant may select either: (1) single life annuity, or (2) joint and survivor annuity. A participant's marital status at his or her benefit commencement date determines which payment method is applicable. A lump-sum payment will be paid for vested participant account balances less than \$5,000. All vested participants who terminate on

or after January 1, 1996, with account balances greater than \$5,000, have the option to receive a lump-sum payment.

*Administrative Expenses* –Substantially all administrative expenses are paid by the Plan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Accounting* - The financial statements of the Plan are presented on an accrual basis of accounting.

*Investment Valuations* - Investments in the Master Trust (see Note 5) are stated at fair value based on quoted market prices. Purchases and sales are recorded on the trade date basis.

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that affect the reported amounts included in these financial statements. Actual results could differ from those estimates.

*Risks and Uncertainties* - The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Plan's financial statements.

*Payment of Benefits* - Benefits are recorded when paid.

## 3. INFORMATION CERTIFIED BY THE TRUSTEE (UNAUDITED)

The following unaudited information regarding the Plan, included in the Plan's financial statements, was prepared by the Trustee and furnished to the plan administrator. The funds of the Plan are invested in funds maintained by the Trustee, a party-in-interest. The plan administrator has obtained certifications from the Trustee that the following information is complete and accurate:

	2006	2005
Investment in Master Trust, at fair value	\$ 213,542,422	\$ 177,531,454
Plan's interest in Master Trust investment income	\$ 23,655,074	\$ 7,976,674

## 4. ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

Accumulated plan benefits represent the actuarial present value of estimated future periodic payments, including lump-sum distributions, under the Plan's provisions that are attributable to services rendered by the participants through December 31, 2002. Accumulated plan benefits include benefits expected to be paid to the following: (a) retired or terminated participants or their beneficiaries, (b) beneficiaries of participants who have died, and (c) present participants or their beneficiaries. Benefits payable under all circumstances - retirement, death, full and permanent disability, and termination of employment are included to the extent that they are deemed attributable to employee service rendered to the valuation date.

Liabilities and contributions shown in the actuarial report are computed using the projected unit credit method of funding. The objective under this method is to fund each participant's benefits under the Plan as they accrue, taking into consideration future salary increases.

The actuarial present value of accumulated plan benefits is determined by the Plan's actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as death, full and permanent disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Significant assumptions underlying the actuarial computations for the 2006 and 2005 plan years, utilizing a beginning of plan year valuation date, are as follows:

	2006	2005
Form of Payment		
Alcatel USA, Inc. original participants	Lump Sum	Lump Sum
Participants of merged plans	Life Annuity	Life Annuity
Interest rates:		
Pre-retirement lump sum	7.00 %	7.00 %
Post-retirement lump sum	4.47%	4.90%
Withdrawal and retirement rates	Varying based on age	Varying based on age
Mortality rates	The 1994 Group Annuity Reserve Tables for Males and Females	The 1994 Group Annuity Reserve Tables for Males and Females

The actuarial valuation is performed at the beginning of the plan year. These actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminated, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

#### 5. MASTER TRUST INFORMATION (UNAUDITED)

The assets of the Plan are combined with the assets of one other benefit plan sponsored by Alcatel, USA into a master trust, the Alcatel Master Trust Retirement Plan Trust (the "Master Trust"). The combination of the plans' assets is for investment purposes only, and each plan continues to be operated under its current plan agreement. Investment income and realized or unrealized gains and losses are allocated to participating plans in the Master Trust monthly based on the market value of plan assets on the last day of the prior month in proportion to the Trust's total value on the last day of the prior month. The following unaudited information regarding the Master Trust, was prepared by the Trustee and furnished to the plan administrator. The funds of the Master Trust are invested in funds maintained by the Trustee, a party-in-interest. The plan administrator has obtained certifications from the Trustee that the following information is complete and accurate

The following are the net assets of the Master Trust as of December 31, 2006 and 2005, and changes in net assets for the years ended December 31, 2006 and 2005:

	2006	2005
Cash	\$ 10	\$ 10
Investments, at fair value:		
Cash and cash equivalents	8,464	1,667
Mutual funds	171,724,276	143,925,963
Interest in common collective trusts	45,464,839	35,202,370
Total investments, at fair value	<u>217,197,589</u>	<u>179,130,010</u>
Receivables for securities sold	<u>821,041</u>	<u>1,203,000</u>
Trust's net assets	<u>\$ 218,018,630</u>	<u>\$ 180,333,010</u>
Plan's investment in Master Trust, at fair value	<u>\$ 213,542,422</u>	<u>\$ 177,531,454</u>
Plan's percent interest	97.9 %	98.4 %

	2006	2005
Changes in net assets:		
Master Trust net assets, beginning of year	\$ 180,333,010	\$ 158,661,236
Contributions	34,312,067	39,784,360
Investment income - cash and cash equivalents	21,206	31,721
Net appreciation in fair value of investments	24,108,903	8,067,505
Benefit payments	(19,028,952)	(24,316,365)
Expenses	<u>(1,727,604)</u>	<u>(1,895,447)</u>
Master Trust net assets, end of year	<u>\$ 218,018,630</u>	<u>\$ 180,333,010</u>

The net unrealized and realized appreciation in the fair value of the Master Trust's investments totaled \$24,108,903 and \$8,067,505 for the years ended December 31, 2006 and 2005, respectively, as follows:

	2006	2005
Mutual funds	\$ 15,741,414	\$ 11,752,550
Interest in common collective trust	<u>8,367,489</u>	<u>(3,685,045)</u>
Net appreciation in fair value of investments	<u>24,108,903</u>	<u>8,067,505</u>
Investment income - cash and cash equivalents	<u>21,206</u>	<u>31,721</u>
Total Master Trust investment income	<u>\$ 24,130,109</u>	<u>\$ 8,099,226</u>
Plan's interest in Master Trust investment income	<u>\$ 23,655,074</u>	<u>\$ 7,976,674</u>

## 6. TAX STATUS

The Plan received a determination letter from the Internal Revenue Service ("IRS") dated February 21, 1996, in which they stated that the Plan, as amended through December 20, 1994, was in compliance with the applicable requirements of the Internal Revenue Code ("IRC"). The Plan has been amended and restated to comply with changes in the law since that time; however, plan management believes that the Plan currently is designed and being operated in compliance with the applicable requirements of the IRC. A request for a new determination letter was submitted to the IRS on December 28, 2001;

however, due to the IRS' policy regarding cash balance plans, the issuance of a favorable determination letter will be delayed until the plan has been reviewed by the National Office of the IRS.

## **7. PLAN TERMINATION**

In the event of the Plan's termination, or partial termination, each participant or beneficiary shall be fully vested in the funded accrued benefits then held by the trustee. Should there be any assets remaining after allocating assets for each participant's accrued benefits, the excess shall first be used to pay the expenses of the plan termination and the balance, if any, shall revert to the Company. If the assets are insufficient to provide for each participant's accrued benefits, the distribution of the Plan's assets shall be based on the priorities of allocation prescribed by ERISA and its related regulations.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation ("PBGC") if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits and certain disability and survivor pensions. However, the PBGC does not guarantee all types of benefits under the Plan and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling on the amount of a participant's monthly benefit that the PBGC guarantees.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at the time, of the Plan's net assets to provide for accumulated benefit obligations and may also depend on the financial condition of the Company and the level of benefits guaranteed by the PBGC.

## **8. SUBSEQUENT EVENT**

Effective March 1, 2007, the Plan was merged into the Lucent Retirement Income Plan ("Lucent Plan"). Plan assets and obligations were transferred to the Lucent Plan during 2007.

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