



The LRO Connection

National Newsletter — Published to keep you informed on LRO

Membership In LRO Gives You Stronger Voice

The strength of the LRO is dependent on the size of its membership and the financial support you supply.

If you are already a member of the LRO, please renew your membership now for 2004. Send your check for the \$25 annual contribution or a \$350 lifetime contribution to Treasurer Bob Janish at his address shown below. If your contact information has changed, please let Bob know.

If you are not an LRO member, please join us. You can sign up by filling out the information requested below or go to www.lucentretirees.com website and register online. Please consider sending along your contribution with your registration information. All Lucent management and non-management retirees, active employees and surviving spouses are eligible to join the LRO.

2004 Membership Information

Renew My LRO Membership

Register Me As A New LRO Member

First Name

MI

Last Name

Street Address or P.O. Box #

City

State

Zip Code

Phone

Email Address

Check one: Retiree Active Employee Surviving Spouse

Management Non-Management

Retirement Date _____ Company At Retirement _____ Years of Service _____

Member registration does not require a donation but in order to help us cover expenses, we ask that you attach a check for your donation - \$25 annually or \$350 lifetime.

MR. BOB JANISH, LRO Treasurer
208 RICHARD STREET
CRANFORD, NJ 07016-2546

LRO is a non-profit organization

From Ken Raschke **President's Perspective**

Nearly a year ago when a small group of loyal management retirees began discussing the potential for forming the Lucent Retirees Organization, our intent was to try to help Lucent regain its position as the world's leading supplier of telecommunications

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equipment. Soon though, Lucent eliminated the Death Benefit for 30,000 retirees' surviving spouses. This benefit had existed for over 80 years and provided widows/widowers the equivalent of one-year's salary upon a retiree's death.

We still wanted to take the "high road" with Lucent and forge a mutually beneficial relationship. A meeting with Lucent's Chairman & CEO Patricia Russo and Henry Schacht, former Lucent Chairman and current Board member took place on April 14. It was a beneficial meeting with candid gives and takes. When we learned that Mr. Schacht chaired a Pension and Benefits Task Force, we requested that the LRO be allowed to have one or more representatives on the committee. We were told that our request would be considered. We asked them for the documentation that allowed them to retroactively eliminate the death benefit. They were asked again for this in writing several months ago, so far nothing. Lucent did respond to some questions we submitted. Answers have provided the LRO with some valuable insights into Lucent's governance of our pension and benefits plans.

Since one of the LRO's primary missions is to protect the retirement benefits of all Lucent retirees, the LRO is supporting efforts to formulate an appropriate legal response to Lucent's termination of the death benefit. We are hopeful that these efforts will soon reach fruition. I wrote to the U.S. Secretary of the Treasury and the Department of Labor Secretary presenting potential legal arguments for them to intervene and set aside Lucent's elimination of the Death Benefit. Their answers were bureaucratic and non-responsive.

On July 8, we had a follow-up meeting in Murray Hill, NJ with Mr. Schacht and a cadre of Lucent's HR, PR and Legal senior executives. Our renewed request to have LRO representation on the Pension and Benefits Task Force was sidestepped. We presented Lucent with a number of healthcare cost-saving suggestions. The LRO offered to recruit members willing to be trained on addressing benefit issues in order to answer questions from retirees. We borrowed this idea from the US West Retirees Association that is saving Qwest time and money by assisting retirees with benefit issues. We also put forth a number of ideas that could reduce benefit costs while not negatively impacting the quality of healthcare for retirees. We came away from that meeting with only the knowledge that Lucent would send out its benefits enrollment packages by mid-September.

We had an uneasy feeling that the other shoe was about to drop, and it did. When the benefits enrollment packages arrived, the LRO officers understood why Lucent did not give us a clue to the extent of the changes. As we now know, the healthcare benefits reductions were worse and far more reaching than most anyone imagined.

The LRO reacted to Lucent's actions by issuing a national news release on September 11, believing that Lucent executives have created a "moral chasm" by drawing multi-millions in compensation while eliminating healthcare benefits promised to management retirees and their dependents. LRO leaders expect to have pension/benefits experts provide us with an evaluation on whether there might be sufficient reason to promote the filing of a class-action lawsuit against Lucent to restore some or all of the healthcare benefits it is eliminating.

Your responses to Lucent's benefits healthcare reductions have been impressive. You have commended LRO officials through phone calls and emails for speaking out through our news release and website. You have called and written to Lucent executives, your U.S. Representatives, Senators and the President passionately pointing out Lucent's broken promises. You have urged members of Congress to pass legislation to prevent this from happening again to Lucent retirees and retirees from other companies.

I commend LRO members for their visibility, show of strength and challenges in the meetings with

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(Continued from page 2) *From Ken Raschke President's Perspective*

Henry Schacht during recent weeks. You made it known that retirees are not going to be silent in the face of Lucent's actions to place an unfair level of the burden of the company's financial recovery on the backs of retirees.

We are also seeking to make our point as shareowners. In August, two LRO members and a spouse filed three proxy statements with Lucent. We are urging Lucent to place these proposals before shareowners at the 2004 annual meeting next spring. An article about the proxy statements is in this newsletter.

We have also been active in addressing issues in Washington, D. C. Bill Kadereit, Southwest Region Director and Government Affairs Director, addresses government issues in his column in this newsletter.

The LRO has climbed to over 5,400 members in a short time. That's a sizable number, but not as large as it needs to be given there are 127,000 Lucent retirees. It is essential that our membership continue to expand to demonstrate to Lucent that our voice is growing ever stronger. Also, financial strength is critical to the LRO to be able to support lawsuits, pay for expert counsel, and communicate with members through our website, emails and newsletter mailings. Starting now for 2004, I urge you to renew your financial support to the LRO and encourage your retired friends who are not members to join. (See the "Join Us" article in this newsletter.) If you would like to make a larger donation, we would welcome it and put the dollars to good use benefiting retirees.

At a time in our lives when most of us would like to be spending more time with our grandchildren and great grandchildren or traveling to our favorite places, many of us are spending volunteer time advancing the LRO mission to address the interests of Lucent retirees. I want to thank the LRO officers for the thousands of hours they have invested in the LRO during our first year of existence. And, I want to extend an invitation to you to become more involved with the LRO. Let us know how you'd like to help. Email and postal addresses for LRO leaders are listed in this newsletter. Your reward for your work will be renewing contacts with former co-workers, making new acquaintances and having the satisfaction of knowing that you put some "skin in the game" in an effort to make things better for Lucent retirees.

While doing our work, however, we must balance emotions with rational thinking. I keep repeating that our best defense against further cuts is a financially healthy Lucent. While we are all justifiably angry, disgusted, etc., we want to be as supportive as we can to help Lucent maintain and increase its sales. If Lucent were to go under, our plight would be much worse. Whatever benefits that are left would be gone, and in the worst case scenario our pensions would be paid out of the Pension Benefit Guaranty Corporation, a governmental agency which has limits on what it will pay. (You can view this information on the PBGC website at: http://www.pbqc.gov/services/descriptions/guarantee_table.htm.) Not only are there limits but it currently is in the "red" because of so many pension plan defaults. We don't want Lucent to be added to that list.

Join us in advancing the LRO's mission. Ours is a worthy endeavor.

Other Retiree Organizations

Other retiree organizations in the telecommunications industry are proving to be strong allies to the LRO. These include Verizon, US West (Qwest) and the TelCo retirees. Contact information for these organizations...

Verizon Retirees
Bill Jones
cwj@friend.ly.net
Phone: 410-770-9485
www.belltelretiree.org

US West Retirees
Nels Phelps
nbphelps@worldnet.att.net
Phone: 303-743-7928
www.uswestretiree.org

Comrades In Arms

TelCo Retirees Association
S. K. Emery
skemery@pacbell.net

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Mail Address: P.O. Box 393 - New Vernon, NJ 07976

Mid Atlantic (DC, MD, NC, SC, VA, WVA) - Hal Worley - hworley@triad.rr.com Phone: 336-725-3603

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Mail Address: 12444 Pebblepoint Pass - Carmel, IN 46033

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Mail Address: LRO Mountain Region - P.O. Box 260572 Highlands Ranch, CO 80163-0572

West Coast (CA, HI, NV) - Howard King - sanjose.king@att.net Phone: 408-268-0429

Mail Address: 6118 Monteverde Drive - San Jose, CA 95120

Pacific Northwest (AK, ID, MT, OR, WA) - Currently Vacant

LRO Pushing For Greater Accountability Through Proxy Statements

Three Lucent shareowners (two retirees and a spouse) have filed three proxy statements proposed for a vote at Lucent's annual meeting in the spring of 2004. The LRO believes passage of these resolutions would benefit all shareowners serving as an important step toward protecting the Lucent retirees' pension fund and providing for greater management accountability.

Independent Fiduciaries for Pension and Benefit Trust Funds

One proxy urges the Lucent Board to adopt a policy that would establish independent directors to govern the company's pension benefit trusts, including the Lucent Retirement Income Plan. If enacted, only independent fiduciaries would manage plan assets, free from specific investment direction by Lucent management.

Lucent's pension fund has assets (approximately \$30 billion) that are equal to roughly four times the company's market capitalization. The plan's funding recently deteriorated from a \$5.5 billion surplus in 2001 to a \$1.7 billion deficit at the end of fiscal 2002. The LRO believes there is a need for greater independence from management in the setting of pension investment and accounting policies.

"We believe that all individuals responsible for the Plan's investment policies should be 'independent' of Lu-

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cent's management," said Ken Raschke, LRO President. "In light of the economic pressures on the company and the pension plan, we believe sound corporate governance requires that plan policy-making should rest exclusively with independent directors and fiduciaries."

Exclude Pension Credits From Calculations of Performance-Based Pay

A second proxy calls on Lucent's Board to adopt a policy that determines future awards of performance-based compensation for executive officers using a measure of earnings that does not include accounting rule income, particularly "pension credits" resulting from projected returns on employee pension fund assets.

A substantial share of the Lucent's reported earnings is not cash flow from ordinary operations, but rather accounting income from "pension credits." Because pension credits don't reflect management's operating performance and can be used to offset or obscure operating losses, the LRO believes they should not factor into performance-based compensation.

"Pension income is simply not a good measure of management's operating performance," Raschke said.

Shareholder Vote on "Golden Parachute" Agreements

The third proxy urges the Lucent Board to seek shareholder approval for future severance agreements with senior executives, including "golden parachute" and "golden good-bye" severance agreements, that provide benefits exceeding 2.99 times the sum of the executive's base salary plus bonus.

"We believe that overly generous "golden parachute" and "golden good-bye" agreements are among the most costly and counter-productive forms of executive compensation," Raschke said.

Because it is not always practical to obtain prior shareholder approval, under this proposal the company has the option to seek shareholder approval after the material terms are agreed upon. "We believe shareholders should at least be given a chance to ratify such agreements," the LRO president noted. "Indeed, the knowledge that shareholders will be scrutinizing and voting on these agreements may encourage restraint and strengthen the hand of the Board's compensation committee."

Even if there is no change in control, Lucent Chairman and CEO Patricia Russo is entitled to a severance package worth at least \$10 million if she terminates for any reason except cause (unethical or unlawful behavior), death or disability. If Russo resigns "with good reason," or is terminated "without cause," she is eligible for a \$6 million lump sum payment (two years salary plus target bonus). In addition, she would receive continued benefit coverage and equity vesting for two years, plus the immediate vesting of 550,000 restricted shares and of options on an additional 1.2 million shares.

Russo can resign and receive even more generous compensation (including "gross-up payments" to offset IRS excise taxes on excessive parachute payments) if there is a "change in control." This is defined to include situations where another entity acquires as little as 20% of the company's voting stock and never makes a tender offer or takes control.

"We believe these multi-million dollar packages are particularly inappropriate at a time Lucent is cutting the benefits of retirees," Raschke said.

The LRO president pointed out that Verizon, Lucent's largest customer, voluntarily adopted the Verizon Retirees-supported proposal to exclude pension credits from executive compensation packages. In addition, Verizon Retirees mounted a successful campaign that saw shareowners at the 2003 Verizon annual meeting pass a proxy to limit "golden parachutes" for Verizon executives.

"We are hopeful Lucent has learned a lesson from its major customer and will be amenable to adopting all three of the proxies endorsed by the LRO," Raschke said.

From Bill Kadereit

Government Affairs Report

WHAT HAPPENED?

LRO President Ken Raschke's "President's Perspective" column in this newsletter points out the devastating impact Lucent is having on the fixed income and healthcare needs of retirees. Management's commitments and governing spirit were never in question during the pre-Lucent years. Values and loyalty to retirees was unshakeable, and management was depend-

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able.

When Lucent was spun off from AT&T in the fall of 1996, approximately two-thirds of AT&T's retirees were transferred to the Lucent Pension Plan with a proportional amount of pension fund dollars. However, only about 50% of the excess in pension fund dollars (i.e.: that amount over the required 100% amount) was transferred. From 1996-2001, Lucent utilized billions of dollars considered to be "surplus" under pension funding regulations to pay for retirees' healthcare benefits. Accordingly, by not having to pay healthcare costs out of operating cash, Lucent's executives had more money available for such things as performance bonuses, retention bonuses and buy-out packages.

When the Internet/Telecom bubble burst, excess funds from one of the pension trusts were also used to pay for layoff allowances and special buyout costs — leaving less trust money for healthcare benefits. Then the stock market fell causing the trust's total value to decrease. The pension fund surplus dried up. In 2001, the legal limit for withdrawals from the pension fund was reached; in 2002, Lucent had to start spending operating dollars to pay for healthcare benefits.

Without an available surplus in the pension fund to continue to draw on to help cover retirees' healthcare costs, retirees began experiencing increases in co-pays, deductibles and out-of-pocket maximums. In February 2003, Lucent canceled the retiree death benefit for management retirees, a crushing blow to 30,000 retirees and spouses. This was a wake up call for all retirees. The healthcare changes announced in September 2003 for the year 2004 were very bad news to management retirees. And, there is a strong possibility that Lucent will seek benefit reductions for represented retirees in its future union negotiations. While no longer Chairman, the 1996 Chairman is still very much involved with decisions that impact retirees' benefits. In this regard he has drawn consulting remuneration ranging from \$55,000 to \$30,000 per month.

Is the elimination of retirees' benefits over? Current law permits elimination of retiree healthcare benefits at the end of a five-year period from the date money from the pension trust fund was last taken (that was in 2001) to pay healthcare benefits. It also allows two 10% reductions during this five-year period. So, Lucent is taking a 10% reduction of the healthcare benefit costs in 2004 and can take more in 2005. The possibility exists that in 2006 (five years from the last withdrawal in 2001), there could be a total elimination of retiree healthcare benefits. Lucent has not said they will, nor have they said that they won't, eliminate healthcare benefits entirely. *What do you think?*

Lucent has experienced a major decrease in sales, and, reportedly, restructuring has been a significant reason for the decrease. In LRO'S opinion, Lucent must concentrate on earning market share and margins with more innovative products and services, and should pay executive salaries and bonuses commensurate with sales successes. In short: pay salaries and award bonuses when results point toward profitability; not because of reductions in retiree benefits!

WHAT IS THE LRO ACTION PLAN?

The Employee Retirement Income Security Act (ERISA) affords pension protection for retirees. A government fund insures payment of some portion of pension payments should a company fail. While the LRO is trying to recover what was lost, it must also protect what is left of our healthcare benefits.

GET BACK WHAT WE HAVE LOST - LRO leaders have explored the viability of potential legal action to recover the Death Benefit and are assessing our chances to claim AT&T and Lucent under funded our healthcare benefits.

PROTECT WHAT IS LEFT - The Executive Branch, U.S. Senators and Representatives are coming across as currently not being concerned about most healthcare benefits. They have been vocal about prescription drugs but weak about solving the real problem. What we need are legislative sponsors, co-sponsors and votes to change ERISA so that the law protects retiree healthcare benefits.

1 Priority for 2003 – 2004

SUPPORT ERISA-LIKE PROTECTION FOR HEALTHCARE BENEFITS - Support HR 1322 or any equivalent Bill – This U.S. House of Representatives bill is in the House Employer, Employee Relations Sub-Committee. It prohibits companies from reducing retiree healthcare benefits and requires restoration of cancelled benefits. It lacks support from House and Senate Republicans and many Democrats have not been vocal supporters. Passage of this bill or one like it is needed.

WHO IS AGAINST US: The White House; Congress; AARP (that's right).

#2 Priority for 2003 – 2004

SUPPORT REVISIONS TO THE SENATE-S1 and HOUSE-H1 Medicare Prescription Drug bills. We need a compromise bill that prohibits companies from dropping their current prescription drug plans if Medicare coverage is enacted. Without this protection, Lucent may cancel our Prescription Drug Plan. Proposed Medicare coverage is inferior to Lucent's plan. Lucent officers may dump your current plan and increase their bonuses with the savings. A positive vote for HR 1322 would solve the Priority #2 problem.

WHO IS AGAINST US – The White House, Congress and the EEOC (see below).

Other Priorities for 2003-2004

- Your LRO officers have joined the National Retirees Legislative Network, AARP and many others on most health-

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care issues. We have demanded that the EEOC cancel a recently proposed rule that threatens the fiber of anti-discrimination legal protection. The proposed rule enables companies to modify or eliminate older worker (retiree) benefits while simultaneously maintaining or improving the same benefits for younger workers.

- We are opposed to cash balance pension plans and are pleased, that in July, IBM retirees won a court decision overturning 47% reductions in older workers' pensions. A House bill was passed that prevents the federal government from spending funds to assist in overturning that decision. We support the bill.

From time-to-time other initiatives threaten the security of retiree benefits. The LRO takes executive action with the NRLN, AARP, AFL-CIO, and others. Bills like HR 1766, S 176, HR 315, etc. can threaten pension or healthcare benefits. We have and continue to monitor and react to such bills and may ask for your support when there is a serious threat.

WHAT CAN I DO?

1 We must have some strength in every Congressional District to make a difference. It doesn't take an army, but does take concerned members willing to be counted. Sign up fellow retirees. Volunteers who have given a lot of time and energy and have even paid many expenses themselves are performing LRO tasks. Funding legislative efforts, new materials, communications expenses, paying legal fees and collaborating with others add to our burden. Please! Send money when you can.

2 Call or email Regional Directors to Volunteer for work in Regions and states.

3 MOST IMPORTANT NOW - Actively call, visit, and write Lucent executives and Congressional leaders. Be direct, brief, and personal. We will continue to post on the LRO websites requests for you to send messages and can offer suggestions about what you might say and ask for, but in the end your passion, words and home town style, make the largest difference.

4 If elected officials don't respond, embarrass them at home, write again, campaign against them, and get out the vote for those who will represent your needs.

NOW: Each of us should write, call or visit those who are AGAINST Priority # 1 (HR 1322) - The plea is simple but you should personalize messages:

Lucent has hurt me and here is how they did it...In 2003, they took my death benefit and 20% of my insurance that covered the Medicare gap, and increased co-pay, deductible, and out-of-pocket dollars. They're taking back my \$38 a month for Medicare B premium reimbursement, all my dental insurance, eliminated my spouses healthcare insurance coverage, and increased co-pay, deductible, and out-of-pocket dollars. These changes are taking away \$ 300 (est. yours) monthly or \$3,600 (est. yours) a year from my \$ _____ (est. yours) Social Security and pension income. You and other legislators are allowing companies to shift healthcare to taxpayers. Is that what you want? I want you to vote for HR 1322!

Also, tell officials of AARP they should help save my healthcare insurance. Stop selling insurance and save mine. The "R" in AARP is for Retirees; stand up and support HR 1322.

NOW: Each of us should write, call or visit those who are AGAINST Priority # 2 (Medicare Prescriptions Drugs) - Since some favor our position, the message is a bit different. Again, you should personalize:

Lucent has hurt me and only your support for HR 1322 can truly protect me in the long run. However, you need to immediately make sure the Prescription Drug Bill contains language that stops companies from canceling their prescription drug plans. Lucent has broken their commitment and have eliminated many of my healthcare benefits and may be ready to cancel its plan if the new Medicare legislation does not stop them. Today, the Lucent plan pays for \$ _____ of my prescription drugs. I estimate the Medicare coverage would be 50% or less of the Lucent coverage. Is that what you want for me? Do you want taxpayers to pay Lucent's bill? If not, I want you to vote only for a bill that provides Medicare prescription coverage or my Lucent plan coverage, whichever is higher. Let me know where you stand.

You could combine your communication to include both Priority 1 and 2 in one letter and end with...see you back in your home state of Oklahoma (or New Jersey etc.).

Be sure to copy Lucent Chairman and CEO Pat Russo, President Bush, your Governor, AARP National Officers and State Presidents (see AARP newsletter for addresses) and any other local politician who may have aspirations of running for Congress. We are approaching an election year, the more attention these issues get, the better.

Your LRO website, www.lucentretirees.com, lists ways to access Legislator addresses and provides other references and current information for you use.

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Summary of Key LRO Actions

- Formed and organized LRO as a support group for Lucent retirees (over 5,400 registered members to date).
- Established member communication protocol via the LRO Website to enable members to communicate their concerns and receive up to date information.
- Participated in face-to-face meetings (April & July) with Lucent's top executives. (Russo/Schacht, et al) establishing presence of LRO and conveying desires of retirees.
- Commenced dialogue with law firms exploring merits of possible class action lawsuit relating to cancellation of the Death Benefit and .of possible legal action relating to Lucent's recent elimination of health care benefits. .
- Initiated broad letter writing campaigns with elected officials and key governmental agencies on matters of retiree importance.
- Endorsed Bill HR 1322 (J.Tierney, D-Mass) which would prevent companies from reducing retiree benefits committed at time of retirement.
- Supported provisions to amend Medicare Prescription Drug Plan to protect retirees who receive drug benefits from their former employer's plan.
- Filed three important proxy statements with Lucent (see article on proxies).
- Formally opposed EEOC'S proposed rule that would make it legal for companies to discriminate against retirees by reducing or eliminating company-sponsored healthcare benefits when a retiree becomes Medicare eligible.
- Strongly opposing Lucent's decision to reduce/eliminate retiree healthcare benefits (2004 Benefits package) while continuing to spend millions of dollars on executive compensation programs.
- Mobilized Lucent retirees to attend Henry Schacht's meetings with retirees in an effort to encourage retirees to speak up and be heard.
- Commenced LRO membership campaign for 2004.

ADDRESS SERVICES REQUESTED

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