

AGERE SYSTEMS INC
Form DEF 14A
January 12, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant **X**
Filed by a Party other than the Registrant **0**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

Agere Systems Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- X** No fee required.
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2. Aggregate number of securities to which transaction applies:

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

Agere Systems Inc.
1110 American Parkway NE
Allentown, Pennsylvania 18109

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Agere Systems will hold its Annual Meeting of Stockholders in the Edward Nash Theater at the Raritan Valley Community College, Route 28W and Lamington Road, North Branch, New Jersey 08876, on Thursday, February 19, 2004, at 9:00 a.m. E.S.T. We are holding the meeting for the following purposes:

1. To elect two members of the Board of Directors, whose terms are described in the proxy statement.

2. To transact such other business as may properly come before the meeting and any postponement or adjournment thereof.

Holders of record of Agere Systems Class A and Class B common stock at the close of business on December 22, 2003, are entitled to vote at the meeting.

In addition to the proxy statement, proxy card and voting instructions, a copy of Agere Systems' annual report on Form 10-K, which is not part of the proxy soliciting material, is enclosed.

It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning a proxy card. Most stockholders can also vote over the Internet or by telephone. If Internet and telephone voting are available to you, you can find voting instructions in the materials accompanying the proxy statement. You can help us save money by voting over the Internet or by telephone. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the enclosed proxy statement.

By Order of the Board of Directors,

JEAN F. RANKIN
*Senior Vice President, General Counsel
and Secretary*

January 12, 2004

PROXY STATEMENT

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Agere Systems Inc. of proxies to be voted at the company's Annual Meeting of Stockholders, to be held on February 19, 2004, and at any meeting following postponement or adjournment of the annual meeting.

You are cordially invited to attend the annual meeting, which will begin at 9:00 a.m. E.S.T. The meeting will be held in the Edward Nash Theater at the Raritan Valley Community College, Route 28W and Lamington Road, North Branch, New Jersey 08876. Stockholders will be admitted beginning at 8:00 a.m. E.S.T. The location is accessible to handicapped persons, and we will provide wireless headsets for hearing amplification upon request.

You will need an admission ticket to enter the meeting. If you are a stockholder of record, that is, you have an Agere Systems stock certificate or hold your shares in an account with our transfer agent, The Bank of New York, and received our proxy materials by mail, you will find an admission ticket attached to the proxy card sent to you. If you plan to attend the meeting in person, please retain the admission ticket and bring it with you to the meeting. A map and directions to the meeting are printed on the admission ticket. If you are a stockholder of record, received an e-mail describing how to view our proxy materials over the Internet and want to attend the meeting in person, you should contact The Bank of New York by phone at 1-866-AGEREIR, or by writing to The Bank of New York, P.O. Box 11082, Church Street Station, New York, New York 10286, to obtain an admission ticket.

If your shares are held in street name, that is, you hold your shares in an account with a bank, broker or other holder of

record, and you plan to attend the meeting in person, you can obtain an admission ticket in advance by sending a written request, along with proof of ownership, such as a recent account statement, to our transfer agent, The Bank of New York, P.O. Box 11082, Church Street Station, New York, NY 10286. If you arrive at the meeting without an admission ticket, we will admit you if we are able to verify that you are an Agere Systems stockholder.

We will also be webcasting the annual meeting. You can access the webcast at <http://www.agere.com/webcast>. Information on our website, other than our proxy statement and form of proxy, is not part of the proxy soliciting materials.

We are first mailing this proxy statement, the proxy card and voting instructions on January 12, 2004, to persons who were stockholders at the close of business on December 22, 2003, the record date for the meeting.

Our fiscal year begins on October 1 and ends on September 30. References in this proxy statement to the year 2003 or fiscal 2003 refer to the 12-month period from October 1, 2002 through September 30, 2003.

Proxies and Voting Procedures

You can vote your shares by completing and returning a proxy card or, if you hold your shares in street name, a voting instruction form. Most stockholders can also vote over the Internet or by telephone. If Internet and telephone voting are available to you, you can find voting instructions in the materials accompanying this proxy statement. The Internet and telephone voting facilities will close at 11:59 p.m. E.S.T. on February 18, 2004. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. If you are a participant in one of our 401(k) plans, your voting instructions must be received by 11:59 p.m. E.S.T. on February 16, 2004.

You can revoke your proxy (including an Internet or telephone vote) at any time before it is exercised by timely delivery of a properly executed, later-dated proxy or by voting in person at the meeting.

The method by which you vote will in no way limit your right to vote at the meeting if you later decide to attend in person. If your shares are held in street name, you must obtain a proxy, executed in your favor, from your broker or other holder of record, to be able to vote at the meeting.

All shares entitled to vote and represented by properly completed proxies received prior to the meeting and not revoked will be voted at the meeting in accordance with your instructions. **If you return a signed proxy card without indicating how your shares should be voted on a matter and do not revoke your proxy, the shares represented by your proxy will be voted FOR the election of the nominees for Director named below.**

If you hold your shares through a broker, your shares may be voted even if you do not vote or attend the annual meeting. Under the rules of the New York Stock Exchange, member brokers who do not receive instructions from beneficial owners will be allowed to vote on the election of Directors. If you hold shares through one of our 401(k) plans and do not vote, those shares will be voted in the same proportion as shares in the plan that are voted by plan participants.

If any other matters are properly presented at the annual meeting for consideration, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the individuals named as proxies and acting thereunder will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. If the annual meeting is postponed or adjourned, your proxy will remain valid and may be voted at the postponed or adjourned meeting. You still will be able to revoke your proxy

until it is voted. At the date this proxy statement went to press, we did not know of any matters that are to be presented at the annual meeting other than the election of Directors.

Stockholders Entitled to Vote

You are entitled to vote at the annual meeting all shares of our Class A and Class B common stock that you held as of the close of business on the record date. Each share of Class A common stock is entitled to one vote with respect to each matter properly brought before the meeting. Each share of Class B common stock is entitled to four votes with respect to the election of Directors and one vote with respect to each other matter properly brought before the meeting.

On December 22, 2003, there were 792,118,909 shares of Class A common stock outstanding and 907,994,888 shares of Class B common stock outstanding.

In accordance with Delaware law, a list of stockholders entitled to vote at the meeting will be available at the meeting, and for 10 days prior to the meeting, at 1110 American Parkway NE, Allentown, Pennsylvania 18109, between the hours of 9 a.m. and 4 p.m. E.S.T.

Required Vote

The presence, in person or by proxy, of the holders of a majority of all the votes that could be cast by the holders of all the outstanding shares of Class A and Class B common stock is required in order to transact business at the meeting.

A plurality of the votes duly cast is required for the election of Directors. That is, the nominees receiving the greatest number of votes will be elected.

In the election of Directors, you may withhold your vote. Withheld votes will be excluded from the vote and will have no effect on the outcome. Broker non-votes, if any, will not be counted as votes cast in the election of Directors.

Ways to Reduce the Number of Copies of Our Proxy Materials You Receive

Under rules adopted by the Securities and Exchange Commission, we are permitted to deliver a single copy of our proxy statement and annual report on Form 10-K to stockholders sharing the same address. This process, called householding, allows us to reduce the number of copies of these materials we must print and mail.

This year, we implemented householding for all stockholders who share the same last name and address and, for shares held in street name, where the shares are held through the same nominee (e.g., all accounts are at the same brokerage firm), so that they are receiving only one copy of our proxy statement and annual report on Form 10-K per address. If you would like to receive a separate copy of this year's proxy statement and annual report on Form 10-K, please write to us c/o The Bank of New York, P.O. Box 11082, Church Street Station, New York, NY 10286, or call us at 1-866-AGEREIR and press prompt 1.

If you share the same last name and address with other Agere Systems stockholders and would like to start or stop householding for your account, you can call 1-800-542-1061 or write to Householding Department, 51 Mercedes Way, Edgewood, NY 11717, including your name, the name of your broker or other holder of record and your account number(s).

If you consent to householding, your election will remain in effect until you revoke it. If you revoke your consent, you will be sent separate copies of documents mailed at least 30 days after receipt of your revocation.

If you would like to view future proxy statements and annual reports over the Internet instead of receiving paper copies, you can elect to do so either by voting at <http://www.proxyvote.com> or by visiting <http://www.investordelivery.com>. Your election to view these documents over the Internet will remain in effect until you revoke it. Please be aware that if you choose to access these materials over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. If you choose to view future proxy statements and annual reports over the Internet, next year you will receive an e-mail with instructions on how to view those materials and vote.

Allowing us to household annual meeting materials or electing to view them electronically will help us save on the cost of printing and distributing these materials.

Cost of Proxy Distribution and Solicitation

Agere Systems will pay the expenses of the preparation of the proxy materials and the solicitation by the Board of Directors of proxies. Proxies may be solicited on behalf of the company in person or by telephone, e-mail, facsimile or other electronic means by Directors, officers or employees of the company, who will receive no additional compensation for soliciting. In accordance with the regulations of the Securities and Exchange Commission and the New York Stock Exchange, we will reimburse brokerage firms and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of Agere Systems stock.

GOVERNANCE OF THE COMPANY

Pursuant to the Delaware General Corporation Law and the company's by-laws, Agere Systems' business, property and affairs are managed by or under the direction of the Board of Directors. Members of the Board are kept informed of the company's business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. We currently have nine members of the Board.

The Board has three standing committees:

The Audit and Finance Committee, the members of which are: Richard L. Clemmer (Chair), Rajiv L. Gupta, Harold A. Wagner and John A. Young;

The Compensation Committee, the members of which are: Rae F. Sedel (Chair), Harold A. Wagner and John A. Young; and

The Nominating/Governance Committee, the members of which are: Harold A. Wagner (Chair) and Krish A. Prabhu.

The Board has determined that all of the Directors other than Mr. Dickson, including those who serve on these committees, are independent for purposes of Section 303A of

the Listed Company Manual of the New York Stock Exchange, and that the members of the Audit and Finance Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934 and Section 303.01 of the Listed Company Manual of the New York Stock Exchange. The Board based these determinations primarily on a review of the responses of the Directors and executive officers to questions regarding employment and compensation history, affiliations and family and other relationships and on discussions with the Directors.

The Board has adopted a charter for each of the three standing committees and corporate governance guidelines that address the make-up and functioning of the Board. The Board has also adopted a code of conduct that applies to all of our employees, officers and Directors. You can find links to these materials on our website at: <http://www.agere.com/governance>.

During fiscal 2003, the Board held six meetings and the committees held a total of 15 meetings. None of the Directors attended fewer than 75% of the total number of meetings of the Board of Directors and the Board committees of which he or she was a member during fiscal 2003. At least quarterly, the non-management Directors meet in private session without members of management. These sessions are presided over by our Chairman, Mr. Wagner.

Audit and Finance Committee

The Audit and Finance Committee focuses its efforts on the following three areas:

- The adequacy of Agere Systems internal controls and financial reporting process and the integrity of Agere Systems financial statements;

- The performance of Agere Systems internal auditors and the qualifications, independence and performance of Agere Systems independent auditors; and

- Agere Systems compliance with legal and regulatory requirements.

The committee meets periodically with management to consider the adequacy of Agere Systems internal controls and the financial reporting process. It also discusses these matters with Agere Systems independent auditors and with appropriate company financial personnel. The committee reviews our financial statements and discusses them with management and the independent auditors before those financial statements are filed with the Securities and Exchange Commission. The committee met nine times in fiscal 2003.

The committee regularly meets privately with the independent auditors, has the sole authority to retain and dismiss the independent auditors and periodically reviews their performance and independence from management. The independent auditors have unrestricted access and report directly to the committee.

Audit Committee Financial Expert. The Board has determined that the Chairman of the committee, Mr. Clemmer, is an audit committee financial expert, as that term is defined in Item 401(h) of Regulation S-K, and independent for purposes of current and recently-adopted New York Stock Exchange listing standards and Section 10A(m)(3) of the Securities Exchange Act of 1934.

REPORT OF THE AUDIT AND FINANCE COMMITTEE

We have reviewed Agere Systems' audited financial statements as of and for the fiscal year ended September 30, 2003, and met with both management and PricewaterhouseCoopers LLP, Agere Systems' independent auditors, to discuss those financial statements. Management has represented to us that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

Management has primary responsibility for the company's financial statements and the overall reporting process, including the company's system of internal controls. The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether those financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the company in conformity with accounting principles generally accepted in the United States of America and discuss with us their independence and any other matters they are required to discuss with us or that they believe should be raised with us. We oversee these processes, although we must rely on the information provided to us and on the representations made by management and the independent auditors.

We have received from and discussed with PricewaterhouseCoopers LLP the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). These items relate to that firm's independence from the company. We also discussed with PricewaterhouseCoopers LLP any matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

Based on these reviews and discussions, we recommended to the Board that the company's audited financial statements be included in Agere Systems' annual report on Form 10-K for the fiscal year ended September 30, 2003.

Richard L. Clemmer (Chair)

Rajiv L. Gupta

Harold A. Wagner

John A. Young

Nominating/Corporate Governance Committee

The responsibilities of the Nominating/Corporate Governance Committee include:

Identifying, evaluating and recommending to the Board, prospective nominees for Director;

Periodically reviewing the company's corporate governance guidelines;

Periodically reviewing the performance of the Board and its members and making recommendations to the Board concerning the number, function and composition of the Board's committees; and

Making recommendations to the Board from time to time as to matters of corporate governance.

The Board believes that it should be comprised of Directors with varied, complementary backgrounds, and that Directors should, at a minimum, have expertise that may be useful to the company. Directors should also possess the highest personal and professional ethics and should be willing and able to devote the required amount of time to company business. The committee was formed in mid-2003 and met once in fiscal 2003. Prior to the formation of the committee, its functions were performed by the Corporate Governance and Compensation Committee.

When considering candidates for Director, the committee takes into account a number of factors, including the following:

Independence from management;

Age, gender and ethnic background;

Whether the candidate has relevant business experience;

Judgment, skill, integrity and reputation;

Existing commitments to other businesses;

Potential conflicts of interest with other pursuits;

Legal considerations such as antitrust issues;

Corporate governance background;

Financial and accounting background, to enable the committee to determine whether the candidate would be suitable for Audit and Finance Committee membership;

Executive compensation background, to enable the committee to determine whether the candidate would be suitable for Compensation Committee membership; and

The size and composition of the existing Board.

The committee will consider candidates for Director suggested by stockholders applying the criteria for candidates described above and considering the additional information referred to below. Stockholders wishing to suggest a candidate for Director should write to our Corporate Secretary and include:

A statement that the writer is a stockholder and is proposing a candidate for consideration by the committee;

The name of and contact information for the candidate;

A statement of the candidate's business and educational experience;

Information regarding each of the factors listed above, other than the factor regarding Board size and composition, sufficient to enable the committee to evaluate the candidate;

A statement detailing any relationship between the candidate and any customer, supplier or competitor of Agere Systems;

Detailed information about any relationship or understanding between the proposing stockholder and the candidate; and

A statement that the candidate is willing to be considered and willing to serve as a Director if nominated and elected.

Before nominating a sitting Director for re-election at an annual meeting, the committee will consider:

The Director's performance on the Board; and

Whether the Director's re-election would be consistent with the company's governance guidelines.

When seeking candidates for Director, the committee may solicit suggestions from incumbent Directors, management or others. After conducting an initial evaluation of a candidate, the committee will interview that candidate if it believes the candidate might be suitable to be a Director. The committee may also ask the candidate to meet with management. If the committee believes a candidate would be a valuable addition to the Board, it will recommend to the full Board that candidate's election.

This year, Mr. Clemmer, who was elected a Director by the Board in 2002, is standing for election by the stockholders for the first time. Mr. Clemmer was recommended to the Board by our Chief Executive Officer. Mr. Dickson believed that Mr. Clemmer would make a valuable addition to our Board based on Mr. Clemmer's financial and industry experience.

Under Agere Systems' by-laws, nominations for Director may be made only by or at the direction of the Board of Directors, or by a stockholder of record at the time of giving notice who is entitled to vote and delivers written notice along with the additional information and materials required by the by-laws to Agere Systems' Corporate Secretary not less than 45 days nor more than 75 days prior to the first anniversary of the record date for the preceding year's annual meeting. For Agere Systems' annual meeting in the

year 2005, we must receive this notice on or after October 8, 2004, and on or before November 7, 2004. You can obtain a copy of the full text of the by-law provision by writing to the Corporate Secretary, 1110 American Parkway NE, Allentown, Pennsylvania 18109.

Compensation Committee

The Compensation Committee is responsible for setting executive officer compensation, for making recommendations to the full Board concerning Director compensation and for general oversight for the compensation and benefit programs for other employees. The committee, including its predecessor, the Corporate Governance and Compensation Committee, met five times in fiscal 2003.

Compensation of Directors

Our outside Directors, that is Directors who are not employees of Agere Systems, each receive annually a retainer of \$45,000 and an option to purchase 30,000 shares of our Class A common stock, or 55,000 shares in the case of our Chairman. Each new outside Director receives an option to purchase 50,000 shares of our Class A common stock upon appointment. The annual grants to Directors are made on the date of our annual meeting.

The exercise price per share for these options, which are granted under our Non-Employee Director Stock Plan, is the fair market value of a share on the date of grant. Options granted under the plan generally have a seven-year term and become exercisable on the first anniversary of the date of grant.

In early 2003, we terminated our deferred compensation plan and distributed to participants their account balances. That plan had permitted non-employee Directors to defer all or a portion of their cash compensation to a deferred compensation account. Deferred compensation plan accounts had two components: an Agere Systems stock portion and a cash portion. Directors could defer receipt of cash retainers to either portion of their accounts. The value of the stock portion of an account fluctuated based on changes in the price of Agere Systems stock. The cash portion of an account earned interest, compounded quarterly, at an annual rate equal to 120% of the average interest rate for 10-year U.S. Treasury notes for the previous quarter.

Agere Systems also provides outside Directors with travel accident insurance when on company business.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee in fiscal 2003 were Rae F. Sedel, Harold A. Wagner and John A. Young. None of the members have ever been an officer or employee of Agere Systems or any of its subsidiaries, and no compensation committee interlocks existed during fiscal 2003.

Stockholder Communications with Directors

Agere Systems stockholders who want to communicate with the Board or any individual Director can write to:

Agere Systems Inc.
Board Administration
Room 4U-541
Four Connell Drive
Berkeley Heights, NJ 07922

Your letter should indicate that you are an Agere Systems stockholder. Depending on the subject matter, management will:

Forward the communication to the Director or Directors to whom it is addressed;

Attempt to handle the inquiry directly, for example where it is a request for information about the company or it is a stock-related matter; or

Not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant

topic.

At each Board meeting, a member of management presents a summary of all communications received since the last meeting that were not forwarded and makes those communications available to the Directors on request.

Director Attendance at Annual Meetings

We typically schedule a Board meeting in conjunction with our annual meeting and expect that our Directors will attend, absent a valid reason, such as a schedule conflict. Last year, all seven of the individuals then serving as Directors attended our annual meeting.

Our Relationship with Our Independent Auditors

The fees billed by PricewaterhouseCoopers LLP for the indicated services performed during fiscal 2003 and fiscal 2002 were as follows:

	Fiscal 2003	Fiscal 2002
Audit fees	\$ 1,938,000	\$ 2,217,000
Audit-related fees	436,000	623,000
Tax fees	762,000	723,000
All other fees		

The amounts shown for Audit-related fees were for financial due diligence services in connection with asset sales and acquisitions, intellectual property royalty audits, audits of employee benefit plans and consultations regarding generally accepted accounting principles. The amounts shown for Tax fees were for assistance with transfer pricing, expatriate tax services, personal financial and tax return preparation and planning services, international tax compliance, international tax advice and federal and state tax advice.

Under its charter, the Audit and Finance Committee must pre-approve all engagements of our independent auditor unless an exception to such pre-approval exists under the Securities Exchange Act of 1934 or the rules of the Securities and Exchange Commission. Each year, the independent auditor's retention to audit our financial statements, including the associated fee, is approved by the committee before the filing of the preceding year's annual report on Form 10-K. At the beginning of the fiscal year, the Audit and Finance Committee will evaluate other known potential engagements of the independent auditor, including the scope of the work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. At each subsequent committee meeting, the committee will receive updates on the services actually provided by the independent auditor, and management may present additional services for approval. Typically, these would be services such as due diligence for an acquisition, that would not have been known at the beginning of the year. The committee has delegated to the Chairman of the committee the authority to evaluate and approve engagements on behalf of the committee in the event that a need arises for pre-approval between committee meetings. This might occur, for example, if we proposed to execute a financing on an accelerated timetable. If the Chairman so approves any such engagements, he will report that approval to the full committee at the next committee meeting.

Since the May 6, 2003 effective date of the Securities and Exchange Commission rules stating that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, each new engagement of PricewaterhouseCoopers LLP was approved in advance by the Audit and Finance Committee, and none of those engagements made use of the *de minimus* exception to pre-approval contained in the Commission's rules.

Appointment of Auditors for Fiscal 2004

The Audit and Finance Committee has reappointed PricewaterhouseCoopers LLP as the independent public accounting firm to audit our financial statements for fiscal 2004.

Representatives of PricewaterhouseCoopers LLP will be present at the meeting. They will be given the opportunity to make a statement if they desire to do so, and they will be available to respond to appropriate questions.

Section 16(a) Beneficial Ownership Reporting Compliance

We believe that, under the Securities and Exchange Commission's rules for reporting of securities transactions by executive officers, directors and beneficial owners of more than 10% of our Class A or Class B common stock, all required reports for fiscal 2003 have been timely filed.

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ITEM 1 ELECTION OF DIRECTORS

The Board of Directors is divided into three classes. One class is elected each year for a term of three years.

Two Directors will be elected at the annual meeting to serve for a three-year term expiring at our annual meeting in 2007. The Board has nominated Richard L. Clemmer and John T. Dickson for the positions. You can find information about Messrs. Clemmer and Dickson below. One of our Directors, John A. Young, will be retiring at the meeting. Mr. Young served as our first Chairman, and we are grateful to him for the time and wise counsel he has provided us since joining the Board in 2001, and wish him well in his future endeavors. As a result of Mr. Young's retirement, the Board will reduce its size from nine to eight and will reduce the size of the class of Directors being elected at the meeting from three to two, effective just prior to the election of Directors at the annual meeting.

The persons named in the proxy card will vote such proxy for the election of Messrs. Clemmer and Dickson, unless you indicate that your vote should be withheld. If elected, Messrs. Clemmer and Dickson will each continue in office until his successor has been duly elected and qualified, or until the earlier of his death, resignation or retirement. Messrs. Clemmer and Dickson have each indicated to the company that he will serve if elected. We do not anticipate that either nominee will be unable to stand for election, but, if that happens, your proxy will be voted in favor of another person nominated by the Board.

The Board of Directors recommends a vote FOR the election of Messrs. Clemmer and Dickson as Directors.

NOMINEES FOR TERMS EXPIRING IN 2007

Richard L. Clemmer, Director since October 2002. Mr. Clemmer has over 30 years of experience in the technology industry, where he has held a variety of executive, financial and management positions. Since mid-2003, he has been Chairman and President of Venture Capital Technology LLC, which is focused on investing in and consulting for

technology companies. Between May 2001 and January 2003, he was on the Board and served as an executive at PurchasePro.com, Inc., a provider of electronic procurement and strategic sourcing solutions. Between 1996 and May 2001, Mr. Clemmer was Executive Vice President, Finance and Chief Financial Officer of Quantum Corp., which was a provider of hard disk drives and other storage solutions. From 1988 to 1996, Mr. Clemmer was Senior Vice President and Chief Financial Officer of Texas Instruments Incorporated's Semiconductor Group. Age: 51.

In September 2002, while Mr. Clemmer was Chairman, Chief Executive Officer and Chief Financial Officer of PurchasePro, having been asked to take over from prior management, PurchasePro filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code in connection with an agreement to sell substantially all of its assets.

John T. Dickson, Director since March 2001. Mr. Dickson has been our President and Chief Executive Officer since August 2000. Previously, Mr. Dickson had been

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Executive Vice President and Chief Executive Officer of Lucent Technologies Inc.'s Microelectronics and Communications Technologies Group since October 1999. He joined AT&T in 1993 as Vice President of its Integrated Circuit business unit, moved to Lucent following its spin-off in 1996, and was named Chief Operating Officer of Lucent's Microelectronics Group in 1997. Before joining AT&T, Mr. Dickson was Chairman and Chief Executive Officer of Shographics from 1992 until 1993, was President and Chief Executive Officer of Headland Technology Incorporated from 1991 to 1992, held various management positions at ICL plc from 1983 until 1991 and held various management positions at Texas Instruments from 1969 until 1983. Mr. Dickson is currently a director of the Semiconductor Industry Association, or SIA, and Mettler-Toledo International Inc. and a member of the board of trustees of Lehigh Valley Health and Hospital Network. Age: 57.

DIRECTORS WHOSE TERMS WILL EXPIRE IN 2005

Harold A. Wagner, Director since March 2001 and Chairman of the Board since December 2001. In December 2000, Mr. Wagner retired from his position as Chairman and Chief Executive Officer of Air Products and Chemicals, Inc., a multi-national chemicals manufacturing company, a position he held since 1998. From 1992 to 1998, Mr. Wagner served as Chairman, President and Chief Executive Officer of Air Products and Chemicals. Mr. Wagner is currently Chairman of the Dorothy Rider Pool Healthcare Trust. He is also a director of CIGNA Corporation, United Technologies Corporation and PACCAR Inc. He is a trustee of Lehigh University and the Eisenhower Exchange Fellowships, Inc. and is a member of the Business Advisory Committee of A.P. Møller. Age: 68.

Richard S. Hill, Director since July 2003. Mr. Hill has been Chief Executive Officer and a director of Novellus Systems, Inc., a supplier of integrated circuit manufacturing equipment, since 1993 and has been Chairman of the Board of Directors since 1996. Before joining Novellus, Mr. Hill spent 12 years at Tektronix, Inc., where he held a variety of positions, including President of Tektronix Development Company, Vice President of the Test and Measurement Group and President of Tektronix Components Corporation. Prior to joining Tektronix, he held engineering management and engineering positions at General Electric, Motorola and Hughes Aircraft Company. Mr. Hill is a director of the University of Illinois Foundation, the Semiconductor Equipment and Materials International Association (SEMI) and LTX Corporation. Age: 51.

Krish Prabhu, Director since January 2003. Mr. Prabhu has been a partner with Morgenthaler Ventures, a private equity firm, since November 2001. Between September 1999 and September 2001, he was Chief Operating Officer of Alcatel, a provider of advanced telecommunications, Internet, networking and optics products and services. From April 1997 to September 1999, he was Chief Executive Officer of Alcatel USA Inc., the U.S. subsidiary of Alcatel.

Prior to that, he held various management positions at Alcatel USA. From 1990 to 1991, he was head of research and development of the Network Systems Transmission Division at Rockwell International, a multi-industry company. This division was acquired by Alcatel in 1991. Mr. Prabhu is a director of ECI Telecom Ltd. and Symmetricom, Inc. Age: 49.

DIRECTORS WHOSE TERMS WILL EXPIRE IN 2006

Rajiv L. Gupta, Director since March 2001. Mr. Gupta has been Chairman of the Board of Directors and Chief Executive Officer of Rohm and Haas Company, a specialty chemical company, since October 1999. From January 1999 to October 1999, he was Vice Chairman of Rohm and Haas. From 1996 to 1998, Mr. Gupta was a member of the Chairman's Committee at Rohm and Haas and oversaw the company's electronic materials business group. From 1993 to 1998, he served as a vice president of the company and director for the Asia-Pacific region. Mr. Gupta is currently a director of Rohm and Haas, Vanguard Group and the American Chemistry Council. Mr. Gupta is also a member of the board of trustees of Drexel University. Age: 58.

Thomas P. Salice, Director since July 2003. Mr. Salice joined AEA Investors LLC, a private equity firm, in July 1989 and became President and a director in January 1999, Chief Executive Officer in January 2000 and Vice Chairman of the Board of Directors in September 2002. Mr. Salice is a director of Marbo, Inc., Mettler-Toledo International Inc., Sovereign Specialty Chemicals, Inc. and Waters Corporation and is a trustee of Fordham University. Age: 44.

Rae F. Sedel, Director since March 2001. Ms. Sedel has been a Managing Director of Russell Reynolds Associates, Inc., an executive recruiting firm, since 1988. She has also been the head of the technology sector and the lead partner on sector verticals at Russell Reynolds Associates since 1991. Previously, Ms. Sedel spent fifteen years with Pacific Telesis Group where she was Vice President-Consumer Markets. Age: 54.

BENEFICIAL OWNERSHIP OF AGERE COMMON STOCK

Beneficial Owners of More Than 5% of Our Common Stock

The following table sets forth certain information concerning the beneficial ownership of our common stock for each person or group of persons we know of, as of January 5, 2004, that beneficially owns more than 5% of either class of our common stock. The information below is based on public filings made by various stockholders. These filings contain information as of particular dates and may not reflect current holdings of our common stock. To our knowledge, other than as described below, the named person or group of persons has sole voting and investment power with respect to these securities.

Name and Address of Beneficial Owner(s)	Class A Common Stock		Class B Common Stock	
	No. of Shares	Percent of Class (1)	No. of Shares	Percent of Class (1)

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	Class A Common Stock		Class B Common Stock	
FMR Corp. 82 Devonshire Street Boston, MA 02109	72,635,023 (2)	9.1%	89,776,541 (2)	9.9%
Davis Selected Advisers, L.P. 2949 East Elvira Road Suite 101 Tucson, AZ 85706	71,414,118 (3)	9.0%		
Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403	67,721,724 (4)	8.5%		
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	65,077,080 (5)	8.0%		
Maverick Capital, Ltd. 300 Crescent Court 18 th Floor Dallas, TX 75201	48,531,800 (6)	6.1%		
NWQ Investment Management Company, LLC 2049 Century Park East 4 th Floor Los Angeles, CA 90067	45,244,355 (7)	5.7%		

- (1) For each person or group, the percentage of class ownership was determined by dividing the number of shares shown in the table by 791,038,216 or 907,994,888, the number of shares of our Class A and Class B common stock outstanding as of December 1, 2003, respectively, plus, in the case of ownership of our Class A common stock, the number of shares such person or group reported that it had the right to acquire upon conversion of our 6.5% Convertible Subordinated Notes due 2009.
- (2) Based on a Schedule 13G Information Statement and a Schedule 13G/A Information Statement each filed by FMR Corp. (FMR), Edward C. Johnson 3d and Abigail P. Johnson on February 13, 2003. The number of shares shown in the table includes 7,508,996 shares of Class A common stock that may be acquired

upon full conversion of our 6.5% Convertible Subordinated Notes due 2009. Such Schedules disclose that FMR has sole voting power with respect to 5,196,789 and 4,353,495 shares of Class A and Class B common stock, respectively, and does not have shared voting power with respect to any shares. Mr. and Ms. Johnson do not have sole or shared voting power with respect to any shares, and their address is the same as FMR.

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Based on a Schedule 13G Information Statement filed by Davis Selected Advisers, L.P. (Davis) on March 10, 2003. Davis is deemed to be the beneficial owner through its services as an investment adviser to persons who beneficially own the shares shown in the table.

- (4) Based on a Schedule 13G/A Information Statement filed by Franklin Resources, Inc. (FRI), Templeton Global Advisors Limited (Templeton) and the principal shareholders of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. (FRI Principal Shareholders), on January, 30, 2003. The FRI Principal Shareholders, together with FRI, may be deemed to be the beneficial owners of securities held by persons advised by subsidiaries of FRI. The number of shares shown in the table (but not the number beneficially owned by Templeton) includes 6,288,672 shares of Class A common stock that may be acquired upon full conversion of our 6.5% Convertible Subordinated Notes due 2009 beneficially owned by the reporting persons (other than Templeton). Such Schedule 13G/A discloses that: (i) Templeton, an investment adviser subsidiary of FRI, beneficially owns only 56,015,684 of the shares shown in the table, or 7.1% of our Class A common stock, and has sole voting power with respect to 55,999,239 shares; and (ii) the other FRI subsidiaries whose ownership is reported (Franklin Advisers, Inc., Templeton Investment Counsel, LLC, Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited and Fiduciary Trust Company International) have sole voting and dispositive power with respect to 11,706,040 shares. However, the Schedule 13G/A discloses that FRI and the FRI Principal Shareholders do not have sole voting or dispositive power with respect to any shares of our Class A common stock and that the reporting persons disclaim beneficial ownership of all shares reported. The address of the FRI Principal Shareholders is the same as FRI, and the address of Templeton is Lyford Cay, P.O. Box N-7759, Nassau, Bahamas.
- (5) Based on a Schedule 13G/A Information Statement filed by Capital Research and Management Company (Capital) on February 13, 2003. The number of shares shown in the table includes 19,570,680 shares of Class A common stock that may be acquired upon full conversion of our 6.5% Convertible Subordinated Notes due 2009. Such Schedule 13G/A discloses that Capital does not have sole or shared voting power with respect to any shares of our Class A common stock and disclaims beneficial ownership of all shares reported therein.
- (6) Based on a Schedule 13G Information Statement filed by Maverick Capital, Ltd. (MCL), Maverick Capital Management, LLC (MCM) and Lee S. Ainslie III on February 14, 2003. MCL is an investment adviser and deemed to be the beneficial owner through the investment discretion it exercises over its clients' accounts. MCM is the general partner of MCL and has the same address. Mr. Ainslie is a manager of MCM granted sole investment discretion, and his address is 767 Fifth Avenue, 11th Floor, New York, NY 10153.
- (7) Based on a Schedule 13G Information Statement filed by NWQ Investment Management Company, LLC (NWQ) on March 21, 2003. Such Schedule 13G discloses that NWQ has sole voting power with respect to 43,438,769 shares and does not have shared voting power with respect to any shares of our Class A common stock.

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Security Ownership of Directors and Executive Officers

The following table sets forth information concerning the beneficial ownership of our Class A and Class B common stock as of December 1, 2003 for: (a) each outside Director, (b) our Chief Executive Officer, who is also a Director, and the four other most highly compensated executive officers in fiscal 2003 and (c) all of our current Directors and executive officers as a group. To our knowledge, except as otherwise noted, the named individual had sole voting and investment power with respect to these securities.

Name	Class A Common Stock Beneficially Owned (1)(2)	Class B Common Stock Beneficially Owned (1)
(a)		
Richard L. Clemmer	50,010	10,264
Rajiv L. Gupta	87,287	
Richard S. Hill		
Krish Prabhu	60,000	
Thomas P. Salice		276,100(3)

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Name	Class A Common Stock Beneficially Owned (1)(2)	Class B Common Stock Beneficially Owned (1)
Rae F. Sedel	97,475	
Harold A. Wagner	130,000	30,000
John A. Young	125,000	