

AGERE SYSTEMS INC
Form DEF 14A
December 29, 2004

**UNITED STATES
SECURITIES AND EXCHANGE
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SCHEDULE 14A

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**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 **O**

Check the appropriate box:

- O** Preliminary Proxy Statement
- O** Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- X** **Definitive Proxy Statement**
- O** Definitive Additional Materials
- O** Soliciting Material Pursuant to Rule §240.14a-12

Agere Systems Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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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 Inc. 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 17, 2005, at 9:00 a.m. E.S.T. We are holding the meeting for the following purposes:

1. To elect three members of the Board of Directors, whose terms are described in the proxy statement.
2. To approve an amendment to our certificate of incorporation to reclassify our Class A common stock and Class B common stock into a new, single class of common stock. Under this proposal, each outstanding share of Class A common stock and Class B common stock would become one share of a new, single class of common stock.
3. To approve four alternative amendments to our certificate of incorporation, each of which would effect a reverse stock split.
4. To approve an amendment to our certificate of incorporation to make administrative changes.
5. 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 common stock and Class B common stock at the close of business on December 20, 2004, are entitled to vote at the meeting.

In addition to the proxy statement, proxy card and voting instructions, a copy of Agere Systems 2004 annual report on Form 10-K, which is not part of the proxy soliciting material, is enclosed.

Some of the proposals on which we are asking you to vote require high approval levels. If you do not vote, it will count as a vote against these proposals. Therefore, it is very important that you vote your shares. If you received more than one proxy card or e-mail, please vote each one you received. 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

December 29, 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 17, 2005, 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 December 29, 2004, to persons who were stockholders at the close of business on December 20, 2004, 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 2004 or fiscal 2004 refer to the 12-month period from October 1, 2003 through September 30, 2004.

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 16, 2005. 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 14, 2005.

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;

FOR the proposal to amend our certificate of incorporation to reclassify our two classes of common stock into a new, single class of common stock;

FOR the proposals to amend our certificate of incorporation to effect a reverse stock split; and

FOR the proposal to amend our certificate of incorporation to make administrative changes.

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;

the proposals to amend our certificate of incorporation to effect a reverse stock split; and

the proposal to amend our certificate of incorporation to make administrative changes.

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and **will not** be allowed to vote on:

the proposal to amend our certificate of incorporation to reclassify the two classes of stock into a new, single class of common stock.

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 to be presented at the annual meeting other than those described in this proxy statement.

Stockholders Entitled to Vote

You are entitled to vote at the annual meeting all shares of our Class A common stock 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 20, 2004, there were 825,487,648 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

Quorum. The holders of shares possessing a majority of all the votes that could be cast on every matter that is to be voted on must be present, in person or by proxy, in order to transact business at the meeting. In addition, in order to consider the proposals to amend the certificate of incorporation to reclassify our common stock and to effect a reverse stock split, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Class A common stock and the holders of a majority of the outstanding shares of Class B common stock is required.

Election of Directors. 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.

Reclassify Classes of Common Stock. The affirmative vote of the holders of a majority of the outstanding common stock, voting together as a single class, and the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting as a separate class, are required to approve the proposed amendment to the certificate of incorporation to reclassify the two classes of common stock into a new, single class of common stock.

Reverse Stock Split. The affirmative vote of the holders of a majority of the outstanding common stock, voting together as a single class, and the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting as a separate class, are required to approve each of the proposed amendments to the certificate of incorporation to effect a reverse stock split.

Administrative Changes. The affirmative vote of the holders of a majority of the outstanding common stock, voting together as a single class, is required to approve the proposal to amend the certificate of incorporation to make administrative changes. The affirmative vote of the holders of at least 80% of the outstanding common stock, voting together as a single class, is required to make some of the proposed administrative changes. If the proposal receives the approval of a majority of the outstanding shares, but not 80% of the outstanding shares, we will make only the changes that can be made with majority approval.

Effect of Withheld Votes and Abstentions. 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. You may vote to abstain on the other proposals. If you vote to abstain, your shares will be counted as present at the meeting for purposes of that proposal and your vote will have the effect of a vote against the proposal. Broker non-votes, if any, will not be counted as votes cast in the election of Directors and will have the effect of votes against the proposals to amend the certificate of

incorporation.

We believe that the proposals to amend our certificate of incorporation are in the best interests of our stockholders. Because of the level of approval needed for these matters and the fact that brokers will not be able to vote on the reclassification proposal unless they receive instructions from their clients, it is very important that you vote your shares.

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

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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, we will send you 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. We have engaged The Proxy Advisory Group of Strategic Stock Surveillance, LLC to assist us in the solicitation of proxies, for a fee of \$15,000 plus expenses. 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 seven members of the Board.

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The Board has three standing committees:

The Audit Committee, the members of which are: Richard L. Clemmer (Chair), Thomas P. Salice and Harold A. Wagner;

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

The Nominating/Corporate Governance Committee, the members of which are: Harold A. Wagner (Chair) and Thomas P. Salice.

The Board has determined that all the Directors other than Messrs. Dickson and Netravali, 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 Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934. 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 also reviewed the relationships between Agere Systems and companies with which our Directors are affiliated.

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>. You can also obtain this information in print by contacting 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.

During fiscal 2004, the Board held nine meetings and the committees held a total of twenty-four meetings. None of the Directors attended fewer than 75% of the total number of meetings of the Board and the Board committees of which he or she was a member during fiscal 2004. 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. To communicate directly with Mr. Wagner or any of the other non-management directors, follow the instructions set forth in the section below entitled Stockholder Communications with Directors.

Audit Committee

The Audit 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.

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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 ten times in fiscal 2004. You can find a copy of the charter of the Audit Committee attached to this proxy statement as Annex A.

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 Section 303A of the New York Stock Exchange Listed Company Manual and Section 10A(m)(3) of the Securities Exchange Act of 1934.

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REPORT OF THE AUDIT COMMITTEE

We have reviewed Agere Systems' audited financial statements as of and for the fiscal year ended September 30, 2004, 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, 2004.

Richard L. Clemmer (Chair)

Thomas P. Salice

Harold A. Wagner

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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 committee met five times in fiscal 2004.

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.

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

Whether the candidate has relevant business experience;

Judgment, skill, integrity and reputation;

Existing commitments to other businesses;

Independence from management;

Whether the candidate's election would be consistent with our corporate governance guidelines;

Potential conflicts of interest with other pursuits, including any relationship between the candidate and any customer, supplier or competitor of Agere Systems;

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 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, at the address indicated below, 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;

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 also consider the Director's performance on the Board.

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. Hill, who was elected a Director by the Board in 2003, and Mr. Netravali, who was elected a Director by the Board in 2004, are standing for election by the stockholders for the first time. Messrs. Hill and Netravali were recommended to the Board by our Chief Executive Officer. Mr. Dickson believed that Messrs. Hill and Netravali would make valuable additions to our Board based on their industry experience.

Under Agere Systems' by-laws, nominations for Director may be made only by or at the direction of the Board, 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 2006, we must receive this notice on or after October 6, 2005, and on or before November 5, 2005. 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 met nine times in fiscal 2004.

Compensation of Directors

Each of our outside Directors, that is Directors who are not employees of Agere Systems, receives 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 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.

The annual grants to Directors historically were made on the date of our annual meeting. Beginning in 2004, these grants will be made on December 1, which is the same day that we make option grants to employees generally as part of our annual grant program, so that Directors' options will have the same exercise price as the options granted to employees as part of the annual grant program.

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 2004 were Rae F. Sedel, Richard S. Hill and Harold A. Wagner. None of the members has ever been an officer or employee of Agere Systems or any of its subsidiaries, and no compensation committee interlocks existed during fiscal 2004.

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

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Your letter should indicate that you are an Agere Systems stockholder. The Corporate Secretary's office will review each letter. Depending on the subject matter, that office will:

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

Attempt to handle the inquiry directly, without forwarding it, 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, the Corporate Secretary 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. The Board has approved this process.

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, 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 2004 and fiscal 2003 were as follows:

| | Fiscal 2004 | Fiscal 2003 |
|--------------------------------------|-------------------|-------------------|
| Audit fees | \$ 1,576,000 | \$ 1,938,000 |
| Audit-related fees | | |
| Sarbanes-Oxley 404-related services | 136,000 | |
| Financial due diligence | 26,000 | 239,000 |
| Intellectual property royalty audits | | 67,000 |
| Employee benefit plan audits | | 80,000 |
| Consultations regarding GAAP | 50,000 | 50,000 |
| Total Audit-related fees | \$ 212,000 | \$ 436,000 |
| Tax fees | | |
| Transfer pricing | 132,000 | 123,000 |

| | Fiscal 2004 | Fiscal 2003 |
|-------------------------------------|-------------------|-------------------|
| Expatriate tax services | 255,000 | 425,000 |
| Personal financial and tax services | 14,000 | 27,000 |
| International tax compliance | 170,000 | 120,000 |
| International tax advice | 47,000 | 34,000 |
| Federal and state tax advice | | 33,000 |
| Total Tax fees | \$ 618,000 | \$ 762,000 |
| All other fees | | |

We no longer allow our executive officers to obtain personal financial and tax services from PricewaterhouseCoopers LLP.

Under its charter, the Audit 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 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 approves any engagements pursuant to this delegation, 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 the auditor provides to the client are not appropriately approved, each new engagement of PricewaterhouseCoopers LLP has been approved in advance by the Audit Committee or its Chairman, and none of those engagements made use of the *de minimis* exception to pre-approval contained in the Securities and Exchange Commission's rules.

Appointment of Auditor for Fiscal 2005

The Audit Committee has reappointed PricewaterhouseCoopers LLP as the independent registered public accounting firm to audit our financial statements for fiscal 2005.

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 common stock or Class B common stock, all required reports for fiscal 2004 have been timely filed.

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.

Three Directors will be elected at the annual meeting to serve for a three-year term expiring at our annual meeting in 2008. The Board has nominated Richard S. Hill, Arun Netravali and Harold A. Wagner for the positions. You can find information about Messrs. Hill, Netravali and Wagner below.

The persons named in the proxy card will vote such proxy for the election of Messrs. Hill, Netravali and Wagner, unless you indicate that your vote should be withheld. If elected, Messrs. Hill, Netravali and Wagner will each continue in office until his successor has been duly elected and qualified, or until the earliest of his death, resignation or retirement. Messrs. Hill, Netravali and Wagner have each indicated to the company that he will serve if elected. We do not anticipate that any of the nominees 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. Hill, Netravali and Wagner as Directors.

NOMINEES FOR TERMS EXPIRING IN 2008

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 its 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 and LTX Corporation. Age: 52.

Arun Netravali, Director since July 2004. Since November 2004, Mr. Netravali has been managing partner of OmniCapital Group LLC, a venture capital firm. From January 2002 to April 2003, Mr. Netravali was Chief Scientist for Lucent Technologies Inc., a provider of services, systems and software for communications networks, working with academic and investment communities to identify and implement new networking technologies. From June 1999 to January 2002, Mr. Netravali was President of Bell Labs as well as Lucent's Chief Technology Officer and Chief Network Architect. Mr. Netravali currently serves on the board of Level 3 Communications Inc. and on the advisory board of Veridicom International Inc. Age: 58.

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 had 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 of the Eisenhower Exchange Fellowships, Inc. and is a member of the Business Advisory Committee of A.P. Møller. Age: 69.

DIRECTORS WHOSE TERMS WILL EXPIRE IN 2006

Thomas P. Salice, Director since July 2003. Mr. Salice is Vice Chairman of AEA Investors LLC, a private equity firm, and has served at AEA Investors since 1989. 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: 45.

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: 55.

DIRECTORS WHOSE TERMS WILL EXPIRE 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 June 2004, he has been a partner at Shelter Capital Partners, a private investment fund. 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. Mr. Clemmer is a director of i2 Technologies, Inc. Age: 52.

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 Executive Vice President and Chief Executive Officer of Lucent's Microelectronics and Communications Technologies Group since October 1999. He joined AT&T Corp. 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, Inc. 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: 58.

BENEFICIAL OWNERSHIP OF AGERE SYSTEMS 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 November 15, 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) |
| FMR Corp. 82 Devonshire Street Boston, MA 02109 | 76,021,776 (2) | 9.2% | 90,164,647 (2) | 9.9% |
| Davis Selected Advisers, L.P. 2949 East Elvira Road Suite 101 Tucson, AZ 85706 | 69,173,144 (3) | 8.4% | | |
| Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403 | 45,311,091 (4) | 5.5% | | |
| Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071 | 65,077,080 (5) | 7.9% | | |
| Massachusetts Financial Services Company 500 Boylston Street Boston, MA 02116 | | | 66,239,320 (6) | 7.3% |
| Putnam, LLC One Post Office Square Boston, MA 02109 | 53,404,355 (7) | 6.5% | | |

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- (1) For each person or group, the percentage of class ownership was determined by dividing the number of shares shown in the table by 824,260,490 or 907,994,888, the number of shares of our Class A common stock and Class B common stock outstanding as of November 15, 2004, 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 full conversion of our 6.5% Convertible Subordinated Notes due 2009.
- (2) Based on Schedule 13G/A Information Statements filed by FMR Corp. (FMR), Edward C. Johnson 3d and Abigail P. Johnson on February 17, 2004. The number of shares shown in the table includes 2,479,214 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. Such Schedules disclose that FMR has sole voting power with respect to 1,180,709 and 5,005,755 shares of Class A common stock 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.

- (3) Based on a Schedule 13G Information Statement filed by Davis Selected Advisers, L.P. (Davis) on February 12, 2004. 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) and the principal shareholders of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. (FRI Principal Shareholders), on February 13, 2004. 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 includes 4,474,632 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. Such Schedule 13G/A discloses that: (i) Templeton Global Advisors Limited, an investment adviser subsidiary of FRI, beneficially owns only 34,296,639 of the shares shown in the table, or 4.2% of our Class A common stock; and (ii) the other FRI subsidiaries whose ownership is reported (Franklin Advisers, Inc., Templeton Investment Counsel, LLC, Franklin Templeton Investments Corp., Franklin Templeton Investment Mgmt Ltd., Franklin Templeton Alternative Strategies, Inc. and Fiduciary Trust Company International) have sole voting and dispositive power with respect to 11,014,452 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.
- (5) Based on a Schedule 13G/A Information Statement filed by Capital Research and Management Company (Capital) on February 13, 2004. 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 beneficially owned by the reporting persons. 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.
- (6) Based on a Schedule 13G/A Information Statement filed by Massachusetts Financial Services Company (MFS) on February 11, 2004. Such Schedule 13G discloses that MFS has sole voting power with respect to 63,444,120 shares of our Class B common stock and does not have shared voting power with respect to any shares.
- (7) Based on a Schedule 13G Information Statement filed by Putnam, LLC (PI), d/b/a Putnam Investments, on behalf of itself and its wholly-owned investment advisers, Putnam Investment Management, LLC (PIM) and The Putnam Advisory Company, LLC (PAC), on February 13, 2004. Such Schedule 13G discloses that: (i) PIM only has shared voting power with respect to 2,101,227 shares and has shared dispositive power with respect to all of the 48,275,772 shares it beneficially owns, 5.9% of our Class A common stock, (ii) PAC only has shared voting power with respect to 3,031,579 shares and has shared dispositive power with respect to all of the 5,128,583 shares it beneficially owns and (iii) PI beneficially owns and shares voting and dispositive power over the aggregate numbers of shares beneficially owned by, and for which voting and dispositive power are shared by, PIM and PAC. The address of PIM and PAC is the same as PI.

Security Ownership of Directors and Executive Officers

The following table sets forth information concerning the beneficial ownership of our Class A common stock and Class B common stock as of November 15, 2004 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 2004 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 | 80,010 | 10,264 |
| Richard S. Hill | 50,000 | |
| Arun Netravali | 697 | 17,136 |
| Thomas P. Salice | 50,000 | 301,100 (3) |
| Rae F. Sedel | 127,475 | |
| Harold A. Wagner | 185,000 | 30,000 |
| (b) | | |
| John T. Dickson | 8,939,753 | 294,675 |
| Ahmed Nawaz | 2,698,671 | 8,853 |
| Sohail A. Khan | 2,389,304 | 60,000 |
| Peter Kelly | 1,546,646 | 73,542 |
| John W. Gamble, Jr. | 1,090,937 | 325 |
| (c) | | |
| Directors and executive officers as a group (11 persons) | 17,158,493 | 795,895 |

(1) No individual Director or executive officer identified above owned more than 1% of our outstanding Class A common stock or Class B common stock as of November 15, 2004, except that as of such date, Mr. Dickson beneficially owned 1.1% of our Class A common stock. As of that date, the Directors and executive officers as a group beneficially owned 2.0% of our Class A common stock and 0.1% of our Class B common stock.

(2) Includes beneficial ownership of the following numbers of shares of Agere Systems Class A common stock that (a) may be acquired within 60 days of November 15, 2004 pursuant to stock options awarded under Agere Systems stock plans or (b) are subject to restricted stock unit awards that vest within 60 days of November 15, 2004.

| | (a) | (b) |
|---------------|-----------|--------|
| Mr. Clemmer | 80,000 | |
| Mr. Hill | 50,000 | |
| Mr. Netravali | | |
| Mr. Salice | 50,000 | |
| Ms. Sedel | 110,000 | |
| Mr. Wagner | 160,000 | |
| Mr. Dickson | 8,775,456 | 18,690 |
| Mr. Nawaz | 2,590,834 | 9,345 |
| Mr. Khan | 2,335,991 | 9,345 |

| | (a) | (b) |
|---|------------|--------|
| Mr. Kelly | 1,458,490 | |
| Mr. Gamble | 1,081,454 | |
| Directors and executive officers as a group | 16,692,225 | 37,380 |

- (3) Includes 270,434 shares held jointly and over which Mr. Salice shares voting and investment power with his spouse, and 30,666 shares of Class B common stock held by a charitable trust and over which Mr. Salice shares voting and investment power with his spouse as trustees.

OVERVIEW OF ITEMS 2 THROUGH 7

We are asking you to approve amendments to our certificate of incorporation that would allow us to reclassify our two classes of stock into a single class of common stock and to effect a reverse stock split. We believe that these actions will improve the liquidity and trading efficiency of our stock, simplify our capital structure, reduce investor confusion and reduce costs for both our stockholders and the company. Please read the more detailed descriptions of the proposals below, including the possible negative effects of the proposed actions. The proposals are independent of each other that is, if one proposal is approved, we can make the change that was approved even if one or more of the remaining proposals are not approved. At most, we will effect one reverse stock split. If both the reclassification of the two classes of common stock into a single class of common stock and a reverse stock split are approved, our current intention is to effect them together, although we reserve the right to effect them at different times or to effect one or neither of the proposals. **The Board recommends that you vote in favor of these proposals.**

We also are asking you to approve an amendment to our certificate of incorporation to remove obsolete provisions referring to Lucent and to make other administrative changes. **The Board recommends that you vote in favor of this proposal.**

Each of the proposals would be effected by amending our certificate of incorporation. You can find a form of certificate of amendment for each of these proposals attached to this proxy statement as Annexes B, C and D, respectively. If we implement more than one proposal, we will modify the certificates of amendment to the extent necessary to reflect each amendment that has already been made. We also may make any changes to the amendments that are required by the Secretary of State of the State of Delaware in order for the certificate s of amendment to be in proper form for filing, and we will insert the effective date and time of the amendment s .

ITEM 2 PROPOSAL TO APPROVE AN AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO RECLASSIFY OUR CLASS A COMMON STOCK AND CLASS B COMMON STOCK INTO A NEW, SINGLE CLASS OF COMMON STOCK

The Board of Directors has authorized, and recommends that you approve, an amendment to our certificate of incorporation to reclassify our Class A common stock and Class B common stock into a new, single class of common stock. Effectively, we would combine our two classes of common stock into one class.

The present two-class common stock structure was created prior to Agere Systems' initial public offering in March 2001, so that Lucent could complete our initial public offering and still distribute its remaining shares of our common stock to its stockholders in a tax-free spin-off. The Class A common stock and Class B common stock are identical in

all respects except that, in voting for the election and removal of directors, the Class A common stock has one vote per share and the Class B common stock has four votes per share.

We retained Morgan Stanley & Co. Incorporated to render an opinion to the Board as to whether the one-for-one exchange ratio to be received by the holders of Class A common

stock is fair to the holders of the Class A common stock, from a financial point of view. We also retained J.P. Morgan Securities Inc. to render a similar opinion to the Board with respect to the holders of the Class B common stock. Morgan Stanley's opinion is attached to this proxy statement as Annex E and JPMorgan's opinion is attached to this proxy statement as Annex F. We urge you to read the opinions carefully in their entirety.

The Board approved the proposed reclassification at a meeting on December 1, 2004. In determining that the proposed reclassification is advisable and fair to, and in the best interests of, our company and the holders of Class A common stock and Class B common stock, our Board took into account a number of factors, including:

Improved liquidity. We believe that combining our two classes of common stock into a new, single class will provide investors with greater liquidity and enhanced quality of trade execution. Our Class A common stock tends to trade at a premium to the Class B common stock, notwithstanding that the Class B common stock has superior voting rights in the election and removal of directors and that the two classes are otherwise equivalent. We believe that the trading premium, to a significant degree, may result from the higher liquidity, or trading volume, of the Class A common stock. At least recently, this higher liquidity has resulted in a narrower spread between bid and ask prices for the Class A common stock than for the Class B common stock. The greater liquidity therefore provides enhanced trading efficiency. The greater liquidity in the Class A common stock may also allow institutional investors to buy and sell larger positions in that class without affecting the stock price. By combining the Class A common stock and the Class B common stock, we hope to facilitate enhanced liquidity for all our stockholders by aggregating the volume of shares of common stock that are traded and thereby removing a possible impediment to efficient trading of our common stock.

Investor Confusion. We believe that some investors may not understand the difference between our two classes of common stock. Reclassifying the two classes of common stock into a single class of common stock would eliminate this potential confusion.

Corporate Governance Considerations. Companies create two-class capital structures for a number of reasons. In cases like ours, this structure is used to facilitate a tax-free spin-off. In other cases, these structures vest voting control in a small group of holders who have less of an economic interest. We believe that investors would generally prefer to see stockholders' voting interests match their economic interests. We believe that a two-class capital structure is no longer needed in order for our spin-off to be tax-free. Reclassifying the two classes of common stock into a single class of common stock would eliminate the disparity between voting interests and economic interests and may make our common stock a more attractive investment.

Cost savings. We currently pay over \$1 million of additional costs related to our proxy mailing each year because of our two-class capital structure. By reclassifying the two classes of common stock into a single class of common

stock, we can reduce the amount of processing costs, expenses to consolidate mailings, printing costs, postage costs and vote tabulation costs we incur each year.

U.S. Federal Income Tax Risks. Our current two-class structure was implemented to allow for our spin-off from Lucent to be tax-free to Lucent and its stockholders. We have received an opinion from our tax counsel, Cravath, Swaine & Moore LLP, to the effect that reclassifying the two classes of common stock into one class will not affect the tax status of the spin-off. While we also asked the Internal Revenue Service for a ruling to this effect, the Internal Revenue Service declined to issue the ruling based on procedural considerations. The Internal Revenue Service did, however, issue an information letter to us which, although advisory and not binding on the Internal Revenue Service, sets forth well established principles of tax law without applying them to a specific set of facts. The principles set forth in the letter suggest that the change we propose would not affect the tax status of the spin-off. Although we do not believe that the Internal Revenue Service would challenge our position, we cannot assure you that it would not do so. In the unlikely event that the Internal Revenue Service were to challenge our position and prevail, under the Tax Sharing Agreement we entered into with Lucent in connection with our spin-off, we would be required to indemnify Lucent for any tax imposed as a result of the reclassification, which could have a material adverse impact on us.

The Board also considered:

The opinion of Morgan Stanley that, as of December 1, 2004, and subject to and based on the considerations described in such opinion, the one-for-one exchange ratio was fair, from a financial point of view, to the holders of Class A common stock.

A draft of the opinion of JPMorgan that subject to and based on the considerations described in such opinion, the one-for-one exchange ratio was fair, from a financial point of view, to the holders of Class B common stock.

The opinion of Cravath, Swaine & Moore LLP, on the U.S. federal income tax consequences of the proposed reclassification as discussed above.

In determining that the proposed reclassification is advisable and fair to, and in the best interests of, our company and the holders of Class A common stock and Class B common stock, our Board considered the factors discussed above and other factors as a whole and did not quantify or otherwise assign relative weights to the different factors. Individual Directors may have given different weights to different factors. Moreover, the foregoing discussion of the reasons for the transaction is not intended to be exhaustive.

Fairness Opinions

Morgan Stanley Opinion Class A Common Stock

We retained Morgan Stanley to act as a financial advisor in connection with rendering an opinion to our Board as to the fairness, from a financial point of view, of the Class A exchange ratio pursuant to the proposed reclassification to the holders of our Class A

common stock. We selected Morgan Stanley based on Morgan Stanley's qualifications, expertise and reputation. On December 1, 2004, Morgan Stanley delivered its opinion to us that, as of such date, based upon and subject to the various considerations set forth in the opinion, the Class A exchange ratio pursuant to the proposed reclassification was fair, from a financial point of view, to the holders of our Class A common stock.

The full text of the written opinion of Morgan Stanley, dated December 1, 2004, describes, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion. The opinion is attached to this proxy statement as Annex E and is incorporated herein by reference. The opinion should be read carefully and in its entirety. Morgan Stanley's opinion was directed to our Board and addresses only the fairness of the Class A exchange ratio pursuant to the proposed reclassification, from a financial point of view, to the holders of our Class A common stock as of the date of the opinion. The opinion does not constitute an opinion as to the prices at which the Class A common stock or Class B common stock or the new, single class of common stock will actually trade at any time. The opinion also does not constitute a recommendation to any stockholder as to how such stockholder should vote with respect to the proposed reclassification. The summary of the opinion of Morgan Stanley described in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

In rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly available financial statements and other business and financial information of the company;
- discussed certain internal financial statements and other financial and operating data concerning the company;
- discussed the past and current operations and financial condition and the prospects of the company with senior executives of the company;
- discussed with our management the strategic and other rationales for the proposed reclassification;
- reviewed the reported prices and trading activity for the Class A common stock and Class B common stock;
- reviewed the pro forma impact of the proposed reclassification on the capitalization and ownership of the company;
- reviewed the prices and trading activity of securities of other publicly traded companies with multiple classes of stock and publicly available research materials regarding such multiple class stock classifications;
- reviewed the financial terms, to the extent publicly available, of certain comparable transactions;
- reviewed the pro forma market capitalization of the proposed reclassification;

reviewed the proposed amendment to the restated certificate of incorporation, Agere Systems' restated certificate of incorporation and bylaws and certain related documents; and

considered such other factors as it deemed appropriate.

In rendering its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the forecasts, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the financial performance of the company. In addition, Morgan Stanley assumed that the proposed reclassification will be consummated in accordance with the terms set forth in the proposed amendment to the restated certificate of incorporation. Morgan Stanley noted that it is not a legal or tax expert and relied upon, without independent verification, the assessment of the company's legal and tax advisors with respect to the legal and tax matters related to the proposed reclassification. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of the company, nor was it furnished with any such appraisals and Agere Systems did not perform any appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of the opinion.

The following are brief summaries of the material financial analyses Morgan Stanley performed in connection with the preparation of its opinion. Some of these summaries include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

Analysis of Historical Trading Relationship Between Class A Common Stock and Class B Common Stock. Morgan Stanley reviewed the historical closing prices and daily trading volume of the Class A common stock and Class B common stock for different periods between May 14, 2002 (first day of when issued trading of Class B shares) and November 29, 2004, and calculated the average trading premiums of the Class A shares to the Class B shares and the average trading volumes of Class A shares and Class B shares. The results of the analysis were as follows:

| | Class A Premium % | Class A Daily Trading Volume ('000) | Class B Daily Trading Volume ('000) |
|-----------------|-------------------------|---|---|
| Since Inception | 3.1% | 8,053 | 4,563 |
| 2-year | 4.4% | 8,223 | 4,084 |
| 1-year | 4.7% | 9,493 | 4,486 |
| 6-month | 4.5% | 8,855 | 5,023 |
| 3-month | 3.6% | 7,596 | 3,561 |
| 1-month | 3.2% | 8,353 | 4,074 |
| 29-Nov-04 | 2.2% | 8,568 | 2,465 |

Morgan Stanley noted that for all of the reviewed time periods, the Class A shares traded at a premium to the Class B shares and that the trading volume of the Class A shares was higher than the trading volume of the Class B shares.

Pro Forma Market Capitalization. Morgan Stanley reviewed the pro forma market capitalization of the company

assuming the completion of the proposed reclassification. Currently, both Class A common stock and Class B common stock are entitled to one vote per share on all matters except the election and removal of directors. For the election and removal of directors, shares of Class A common stock are entitled to one vote per share and shares of Class B common stock are entitled to four votes per share. Based on the exchange ratio calculated by dividing the reported last sale price on November 29, 2004 for the Class A common stock by that of the Class B common stock and without considering the impact of any change in liquidity to the Class A common stock, Morgan Stanley estimated that the impact of the reclassification would result in a decrease of approximately \$0.02 per share for the holders of Class A common stock and that approximately \$27 million of additional market capitalization would be required for Class A shareholders to break-even. Morgan Stanley also observed that the company expects to save approximately \$1.1 million annually from the proposed reclassification.

Analysis of Historical Reclassification Transactions. Morgan Stanley identified and analyzed 21 reclassification transactions of U.S. companies which occurred among publicly traded companies from 1998 to 2003 and selected 8 of those transactions involving companies with no significant shareholders. In each such reclassification transaction, two classes of stock of a single company with differential voting rights were reclassified or combined into a single class of common stock. For each of the companies identified for the historical reclassification transaction analysis, Morgan Stanley examined the number of new shares received in the reclassification for each share of the higher-voting stock and the number of new shares received in the reclassification for the lower-voting stock. The ratio of new shares received per share of higher-voting stock to the shares received per lower-voting stock is referred to as the exchange ratio. The results were as follows:

| <u>Recent Reclassifications</u> | <u>Exchange Ratio</u> | <u>Implied Premium</u> |
|---------------------------------|-----------------------|------------------------|
| Alberto-Culver Company | 1:1 | 0.0% |
| MIPS Technologies, Inc. | 1:1 | 0.0% |
| Jo-Ann Stores, Inc. | 1.15:1 | 15.0% |
| Freeport-McMoRan | 1:1 | 0.0% |
| Conoco Inc. | 1:1 | 0.0% |
| Amsurg | 1:1 | 0.0% |
| Raytheon Company | 1:1 | 0.0% |
| Waddell & Reed Financial, Inc. | 1:1 | 0.0% |

Of the transactions with no significant shareholders examined in the historical reclassification transaction analysis, 7 had an exchange ratio of 1:1 and had no premium.

The companies utilized in the historical reclassification transaction analysis have different capital structures, operate in different industries and have different shareholder bases, among other things, and therefore no company utilized in the historical reclassification transaction analysis is identical to Agere Systems. In evaluating the reclassification transactions, Morgan Stanley made judgments and assumptions with regard to, among other things, the capital structure and shareholder base of those companies.

Mathematical analyses (such as determining the average or median) are not in themselves meaningful methods of using reclassification transaction data.

Analysis of Multiple Class Publicly Traded Companies. Morgan Stanley identified and analyzed a group of companies which, as of the time of the analysis, had two or more classes of publicly traded shares with different voting rights. Based upon a search of companies listed on the New York Stock Exchange, the American Stock Exchange and The Nasdaq National Market, Morgan Stanley selected and reviewed 10 companies with two or more classes of publicly traded shares in which neither of the classes of publicly traded shares had a significant shareholder and both classes of shares had a minimum level of trading volume. In this analysis, Morgan Stanley determined the average trading premium exhibited by each class of stock of each of these companies over the five-year period ending November 29, 2004. The results of such analysis were as follows:

| Multiple Class Publicly Traded Companies | Five-Year High-Vote Premium / (Discount) Average |
|---|---|
| Agere | (2.9%) |
| Advanta | 10.2% |
| Bandag | 13.1% |
| Gartner | (4.9%) |
| IDT Corp | 3.9% |
| Lennar Corporation | (5.9%) |
| McData | (1.7%) |
| Molex Corporation | 22.0% |
| Neiman Marcus | (6.6%) |
| Radio One | 3.4% |

Over the last five years, Morgan Stanley found that shares with preferential voting rights traded at a median premium of 0.9% relative to low-vote shares. The analysis suggested that various factors, including the greater liquidity of the shares of one class of common stock, may offset the impact of the higher voting rights of a class of common stock on the market price of the shares of that class of stock.

The companies utilized in the multiple class publicly traded companies analysis have different capital structures, operate in different industries and have different shareholder bases, among other things, and therefore no company utilized in the multiple class publicly traded companies analysis is identical to Agere Systems. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to, among other things, the capital structure and shareholder base of such companies. Mathematical analyses (such as determining the average or median) are not in themselves meaningful methods of using comparable company group data.

In connection with the review of the proposed reclassification, Morgan Stanley performed a variety of financial and comparative analyses for purposes of its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or

factor considered by it. Furthermore, Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses, would create an incomplete view of the process underlying its opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may

have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of the Class A common stock or Class B common stock.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the company. The analyses performed were prepared solely as part of Morgan Stanley's analysis of the fairness, from a financial point of view, of the Class A exchange ratio pursuant to the proposed reclassification to holders of Class A common stock. The analyses do not purport to be appraisals or to reflect the prices at which shares of the Class A common stock or Class B common stock or the new, single class of common stock might actually trade. The exchange ratios and other terms of the proposed reclassification were determined by and approved by our Board. However, Morgan Stanley did not recommend any specific exchange ratio to us or that any specific exchange ratio constituted the only appropriate exchange ratio for the proposed reclassification.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In addition, Morgan Stanley is a full-service securities firm engaged in securities trading, brokerage and financing activities. In the ordinary course of Morgan Stanley's trading and brokerage activities, Morgan Stanley or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions for its own account or the accounts of customers, in debt or equity securities or senior loans of Agere Systems.

Pursuant to our engagement letter with Morgan Stanley, we agreed to pay Morgan Stanley a customary fee, which was payable upon the rendering of the opinion, and to reimburse Morgan Stanley for any reasonable expenses incurred in connection with Morgan Stanley's engagement. We also agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates, against certain liabilities and expenses, including certain liabilities under the federal securities laws, arising out of Morgan Stanley's engagement. In the past, Morgan Stanley has provided financial advisory services to us and has received fees for the rendering of these services.

JPMorgan Opinion Class B Common Stock

We retained JPMorgan to act as a financial advisor in connection with rendering an opinion to our Board as to the fairness, from a financial point of view, of the Class B exchange ratio pursuant to the proposed reclassification to the holders of our Class B common

stock. At the December 1, 2004 meeting of our Board, our Board reviewed a draft opinion from JPMorgan, which was confirmed in writing on December 7, 2004. Based upon and subject to the assumptions, qualifications and limitations set forth in the written opinion, the opinion stated that the one-for-one exchange ratio pursuant to the proposed reclassification was fair, from a financial point of view, to the holders of our Class B common stock.

The full text of JPMorgan's opinion, which sets forth, among other things, the assumptions made, the procedures followed, matters considered, and qualifications and limitations on the scope of the review undertaken by JPMorgan in rendering its opinion, is attached as Annex F to this proxy statement. The opinion

should be read carefully and in its entirety. JPMorgan provided its opinion to our Board for assistance in connection with its consideration of the proposed reclassification, and the opinion addresses only the fairness of the exchange ratio, from a financial point of view, to the holders of our Class B common stock as of the date of the opinion. The opinion was one of several factors taken into consideration by our Board in authorizing the proposed reclassification. The opinion does not constitute an opinion as to the prices at which our Class B common stock will actually trade at any time and the opinion does not address the relative fairness of the consideration to be received by holders of our common stock. Furthermore, the opinion does not address the relative merits of the proposed reclassification compared to other business strategies considered by or available to our Board, nor does it address our Board's decision to proceed with the proposed reclassification. The opinion is not a recommendation to any stockholder as to how such stockholder should vote with respect to the proposed reclassification or any other matter and should not be relied upon by any stockholder as such. This summary of JPMorgan's opinion is qualified in its entirety by reference to the full text of the opinion attached as Annex F.

In rendering its opinion, JPMorgan, among other things:

reviewed our restated certificate of incorporation, bylaws and rights agreement as they relate to the rights and privileges of our Class A common stock and Class B common stock and to the limitations imposed upon the accumulation of such stock;

reviewed a draft of the certificate of amendment to the restated certificate of incorporation proposed to be filed with the Secretary of State of the State of Delaware to effect the proposed reclassification;

reviewed the historical trading performance and trading liquidity of both classes of our common stock;

reviewed the historical trading performance and trading liquidity for other two-class companies;

compared the financial terms of the proposed reclassification and the exchange ratio to be used in the proposed reclassification with the publicly available financial terms of selected recent reclassification transactions that JPMorgan deemed relevant and the exchange ratios used in such transactions;

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reviewed the historical trading performance, trading liquidity and post-announcement stock price performance for securities in such relevant reclassification transactions;

reviewed selected recent change-of-control transactions where the target had two-class securities both trading on an exchange; and

performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purpose of its opinion.

In addition, JPMorgan held discussions with certain members of our management with respect to the original creation of our two-class common stock structure, certain aspects of the proposed reclassification and the strategic and other reasons behind our decision to propose the reclassification. JPMorgan was not requested to, and did not, provide advice concerning the structure, the specific exchange ratio, or any other aspect of the proposed reclassification, and JPMorgan did not provide any services other than the delivery of its opinion.

In rendering its opinion, JPMorgan relied upon and assumed, without assuming any responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or that was furnished to it by us or otherwise reviewed by or for it. JPMorgan did not conduct any valuation or appraisals of any of our assets or liabilities, nor were any such valuations or appraisals provided to it. JPMorgan also assumed that the proposed reclassification would qualify as a tax-free exchange and recapitalization for U.S. federal income tax purposes. JPMorgan noted that it is not a legal or tax expert and relied upon, without assuming any responsibility for independent verification or liability therefor, the assessment of our legal and tax advisors with respect to the legal and tax matters related to the proposed reclassification.

The JPMorgan opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion. Subsequent developments may affect its opinion and JPMorgan does not have any obligation to update, revise or reaffirm its opinion. The JPMorgan opinion is limited to the fairness of the exchange ratio in the proposed reclassification, from a financial point of view, to the holders of our Class B common stock. JPMorgan has not expressed any opinion as to the underlying decision by us to engage in the proposed reclassification. JPMorgan also has not expressed any opinion as to the price at which our Class B common stock will trade at any future time.

The following is a brief summary of the analyses JPMorgan performed in connection with preparing its fairness opinion:

Historical Trading Analysis of our Class A Common Stock and Class B Common Stock. JPMorgan reviewed the historical trading performance and the trading liquidity of our Class A common stock and Class B common stock. This analysis included the examination of the percentage by which the daily closing price per share of our Class B common stock traded at a premium or a discount to the daily closing price per share of our Class A common stock. The trading premium or discount was calculated for all trading days

between June 3, 2002, when our Class B common stock first began trading, to December 3, 2004. For the period from June 3, 2002 to December 3, 2004, our Class B common stock had an average trading discount of 3% relative to our Class A common stock. For the two-year and one-year periods, and the last 20 trading days, each ending December 3, 2004, our Class B common stock had average trading discounts of 4.2%, 4.5%, and 2.9% respectively, relative to our Class A common stock.

JPMorgan also analyzed the ratio of the average daily trading volume of our Class B common stock relative to the average daily trading volume of our Class A common stock, which is referred to as the relative trading liquidity. For the period from June 3, 2002 to December 3, 2004, the relative trading liquidity was 0.56 times. For the two-year and one-year periods, and the last 20 trading days each ending December 3, 2004, the relative trading liquidity was 0.49 times, 0.47 times, and 0.41 times respectively.

Analysis of Historical Reclassification Transactions. JPMorgan identified and analyzed 10 selected reclassification transactions involving companies whose high-vote shares had lower trading liquidity than their low-vote shares.

In each selected reclassification transaction, two classes of a single company with differential voting rights were reclassified or combined into a single class of common stock. JPMorgan noted that the ratio of new shares received by both classes of common stock in 9 out of the 10 selected transactions was one-for-one. For these selected reclassification transactions (excluding the two transactions in which a significant or controlling stockholder had an

agreement, or had otherwise disclosed an intention, to sell its holdings in connection with the transaction), the average trading premium for the low-vote shares relative to the high-vote shares over the last 20 trading days, and one-year, two-year and three-year periods, each ending the day prior to the public announcement of the reclassification transactions, was 3.6%, 4.9%, 5.5% and 4.2%, respectively.

JPMorgan also analyzed the post-announcement stock price performance of the high and low-vote shares of the companies that engaged in these selected reclassification transactions. On average, the market trading prices of the high-vote shares increased 0.9% and the market trading prices of the low-vote shares decreased 0.4% on the trading day immediately upon the announcement of the reclassification transactions. JPMorgan noted that the post-announcement trading performance in previous reclassification transactions has no bearing on how our Class A common stock and Class B common stock may trade upon the announcement of our proposed reclassification.

Analysis of Publicly Traded Companies with Two-Class Capital Structures. JPMorgan identified and analyzed a group of 22 companies that, as of the time of the analysis, had two classes of publicly traded common stock with different voting rights and had market capitalizations of between \$500 million and \$5 billion, where the low-vote shares had greater trading liquidity than the high-vote shares.

The analysis indicated that the low-vote shares traded at average trading premiums relative to the high-vote shares of 1.2%, 0.9% and 0.2% for the one-year, two-year and five-year periods, each ending December 3, 2004, respectively.

Analysis of Precedent Change-of-Control Transactions involving Targets with Two-Class Capital Structures. Concurrent with delivering its opinion on December 7, 2004, JPMorgan advised us that it had performed an additional analysis whereby JPMorgan identified and analyzed a group of 8 selected change-of-control transactions since 1999, where the target had two classes of stock trading on an exchange. In all cases, the same consideration was offered to all classes of stock.

JPMorgan performed a variety of financial and comparative analyses for purposes of rendering its opinion. The summary set forth above does not purport to be a complete description of the analyses or data presented by JPMorgan. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, JPMorgan considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, JPMorgan believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of its analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion.

Our Board selected JPMorgan as its financial advisor because of its reputation as an internationally recognized investment banking and advisory firm with experience in transactions similar to the proposed reclassification and because JPMorgan is familiar with our company and our business.

As part of its investment banking and financial advisory business, JPMorgan is continually engaged in structuring and executing a wide range of domestic and international transactions, including acquisitions, divestitures, mergers, joint ventures, corporate restructurings, leveraged buyouts, defenses against unsolicited takeover attempts, recapitalizations, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

JPMorgan provides a full range of financial advisory and securities services and in the past, JPMorgan and its affiliates have provided financial advisory and financing services for us and our affiliates and received fees for the

rendering of such services and also may provide such services to us and our affiliates in the future for which they would expect to receive fees. In addition, in the course of their business, JPMorgan and its affiliates may actively trade the debt and equity securities of our company for their own accounts or for the accounts of their customers and, accordingly, may at any time hold long or short positions in such securities.

Pursuant to our engagement letter with JPMorgan, we agreed to pay JPMorgan a customary fee upon the delivery of its opinion. We also agreed to reimburse JPMorgan for its reasonable out-of-pocket expenses incurred in connection with the engagement, including reasonable attorneys' fees, and to indemnify JPMorgan and its related parties from and against certain liabilities, including liabilities under the federal securities laws.

The opinions of Morgan Stanley and JPMorgan are two of the many factors taken into consideration by the Board in making its determination to approve the proposed reclassification. The analyses summarized above should not be viewed as determinative of the opinion of the Board with respect to the value of either the Class A common stock or Class B common stock or of whether the Board would have been willing to agree to different exchange ratios.

Principal Effects of the Proposed Reclassification

If the proposed reclassification is approved and becomes effective, each share of our outstanding Class A common stock and Class B common stock will automatically be reclassified into one share of a new, single class of common stock. If the proposed amendment to our certificate of incorporation becomes effective, it will have the following effects, among others, on the holders of Class A common stock and Class B common stock and on our company.

Voting Power of Holders of Our Class A Common Stock and Class B Common Stock

Election and Removal of Directors. The holders of Class A common stock currently have one vote per share for the election and removal of directors. The holders of Class B common stock currently have four votes per share for the election and removal of directors. After the proposed reclassification, the holders of Class A common stock and the holders of Class B common stock will be holders of a new, single class of common stock with one vote per share for the election and removal of directors.

All Other Matters. The Class A common stock and the Class B common stock currently each have one vote per share on all other matters on which stockholders are entitled to vote. The proposed reclassification will not change these voting rights.

Economic Interests of Holders of Class A Common Stock and Class B Common Stock

The proposed reclassification will have no impact on the economic interest of holders of Class A common stock and Class B common stock.

Capitalization

The proposed reclassification will have no impact on the total issued and outstanding shares of common stock or on the total number of shares of common stock we are authorized to issue.

Accounting Matters

If the proposed reclassification becomes effective, we will revise the Stockholders' Equity portion of our balance sheet to show the par value attributable to the new, single class of common stock rather than the two current classes separately.

Market Price of New Common Stock

If the proposed reclassification becomes effective, the market price of shares of our new common stock will depend on many factors, including our future performance, general market conditions and conditions in the markets in which we operate. Accordingly, we cannot predict the price at which our new common stock will trade after the proposed reclassification occurs.

New York Stock Exchange Listing of New Common Stock, CUSIP Numbers

If authorization is received from the New York Stock Exchange, then, after the proposed reclassification becomes effective, we expect our new common stock to be listed on the New York Stock Exchange under the ticker symbol AGR . We also expect that our Class A common stock, AGR.A , and Class B common stock, AGR.B , will be delisted if the proposed amendment is adopted. Our new common stock will retain and use the CUSIP security identification number presently assigned to our Class A common stock, unless we also effect a reverse stock split, in which case the new common stock will have a new CUSIP number.

Company Operations

The proposed reclassification will have no effect upon the day-to-day operation of our business.

Resale of New Common Stock

If the proposed reclassification becomes effective, shares of our new common stock may be sold in the same manner as Class A common stock and Class B common stock may presently be sold. Our affiliates will continue to be subject to the restrictions specified in Rule 144 under the Securities Act of 1933.

Rights Agreement

Under our current rights agreement, holders of Class A common stock and Class B common stock have the right, among others, to acquire additional shares of Series A Junior Participating Preferred Stock upon the acquisition by a person of more than a specified percentage of our outstanding shares. The rights agreement will be amended to make the rights applicable to the new common stock and to change references to Class A common stock and Class B common stock to common stock.

Stock-Based Plans for Employees and Directors

Outstanding options to purchase Class A common stock and other awards with respect to Class A common stock issued under stock-based plans for employees and directors will become options and awards for the same number of shares of new common stock upon the same terms as in effect before the proposed reclassification becomes effective, with no change in the exercise price of stock options.

Convertible Subordinated Notes

If the proposed reclassification is approved and becomes effective, our 6.5% Convertible Subordinated Notes due 2009 will become convertible into the new common stock at the same rate as was in effect just prior to the proposed reclassification.

United States Federal Income Tax Consequences of the Proposed Reclassification

The following is a summary of the material U.S. federal income tax consequences of the proposed reclassification to our stockholders and to Agere Systems if no reverse stock split is effected. This discussion is based on the Internal Revenue Code, the Treasury Regulations promulgated thereunder, published statements by the Internal Revenue Service and other applicable authorities on the date of this proxy statement, all of which are subject to change, possibly with retroactive effect. This discussion does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. Further, it does not address any state, local or foreign income or other tax consequences, or any consequences based on facts particular to a given holder. This summary assumes that shares of our Class A common stock or Class B common stock are held as a capital asset, as defined in Section 1221 of the Internal Revenue Code, immediately prior to the proposed reclassification. See **United States Federal Income Tax Consequences** in the discussion of Items 3, 4, 5 and 6 below for a summary of the material U.S. federal income tax consequences of the proposed reclassification if we effect a reverse stock split.

The following discussion does not consider any effect of the proposed reclassification on the tax-free status of our spin-off from Lucent, which is discussed above under **U.S. Federal Income Tax Risks**.

We believe that the material U.S. federal income tax consequences of the proposed reclassification are as follows:

No gain or loss will be recognized for U.S. federal income tax purposes by any of the holders of our Class A common stock or any of the holders of our Class B common stock upon the reclassification of shares of our Class A common stock and Class B common stock into shares of new common stock under the proposed amendment.

A stockholder's basis for the new common stock immediately after the reclassification becomes effective will be the same as the stockholder's aggregate basis for the Class A common stock and Class B common stock held by that stockholder immediately before the reclassification becomes effective.

The holding period for the new common stock will include such stockholder's holding period for the Class A common stock and/or Class B common stock that is treated for U.S. Federal income tax purposes as being exchanged therefor.

No gain or loss will be recognized for U.S. federal income tax purposes by Agere Systems upon the reclassification of shares of our Class A common stock and Class B common stock into shares of new common stock.

We cannot assure you that the Internal Revenue Service or the courts will not take contrary positions. You should consult your tax advisor for a full understanding of the tax consequences of the proposed reclassification.

Required Vote

The proposed amendment to our certificate of incorporation which would reclassify our two classes of common stock into a new, single class of common stock requires the approval of:

The holders of a majority of the outstanding shares of Class A common stock and Class B common stock, voting together as a single class;

The holders of a majority of the outstanding shares of Class A common stock, voting as a separate class; and

The holders of a majority of the outstanding shares of Class B common stock, voting as a separate class.

If we are unable to obtain any of the required approvals, the reclassification of the Class A common stock and Class B common stock into a new, single class of common stock will not occur.

Reservation of Right to Abandon Proposed Reclassification

The Board reserves the right to abandon the proposed reclassification without further action by our stockholders at any time before the time the amendment to our certificate of incorporation to be filed with the Secretary of State of the State of Delaware becomes effective, regardless of whether the proposed reclassification has been approved by our stockholders. Although the Board does not currently anticipate exercising its right to abandon the proposed reclassification and is not currently aware of specific events that would cause it to abandon the proposed reclassification, should the Board subsequently determine that the reclassification of the Class A common stock and the Class B common stock into a single class of common stock is no longer in the best interests of the company or its stockholders, the Board will not proceed with the proposed reclassification. By voting in favor of the proposed reclassification, you are also expressly authorizing the Board to determine not to proceed with, and abandon, the proposed reclassification if it should so decide.

The completion of the proposed reclassification is expressly contingent upon the acceptance of the common stock for trading by the New York Stock Exchange and the continuing effectiveness of the opinion of counsel we have received from Cravath, Swaine & Moore LLP that the proposed reclassification will not adversely affect the tax-free status of Agere Systems spin-off from Lucent.

No Appraisal Rights

Stockholders do not have appraisal rights under Delaware General Corporation Law or under our certificate of incorporation in connection with this proposed reclassification.

Procedure for Effecting Reclassification and Impact on Holders of Stock Certificates

If stockholders approve the proposed reclassification and the Board decides to implement the proposed reclassification, we will file with the Secretary of State of the State of Delaware a certificate of amendment to our certificate of incorporation. The proposed reclassification will become effective at the time of filing of, or at such later time and date as is specified in, the certificate of amendment, which we refer to as the effective time. Beginning at the effective time, stockholders' existing certificates representing shares of Class A common stock and Class B common stock will automatically represent an equal number of shares of new common stock. It will not be necessary for record holders of Class A common stock or Class B common stock holding certificated shares to exchange their existing certificates for new certificates. However, if stockholders wish, they may at any time after the effective date of adoption of the proposed amendment exchange their existing certificates for certificates representing shares of our new common stock by contacting our transfer agent.

If we effect this proposed reclassification together with any of the proposals for a reverse stock split, we will issue new stock certificates to those currently holding stock certificates. We will provide you with instructions about how to exchange your certificates shortly after the transactions occur.

The Board of Directors recommends a vote FOR this proposal.

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**ITEMS 3, 4, 5 and 6 PROPOSALS TO APPROVE AN AMENDMENT
TO THE CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE
STOCK SPLIT AT THE DISCRETION OF OUR BOARD OF DIRECTORS**

We are asking stockholders to approve four alternative proposals that each would allow us to amend the certificate of incorporation to effect a reverse stock split. A reverse stock split would reduce the number of outstanding shares of any class of our common stock, and the holdings of each stockholder, according to the same formula. The proposals are identical except for the ratios for the reverse stock split: 1-for-10, 1-for-20, 1-for-30 and 1-for-40. If any of the proposals is approved, the Board may effect a reverse stock split at the ratio included in one of the approved proposals, in which case the Board would abandon any other approved proposal. The Board will also have the discretion not to effect any reverse stock split.

We are asking stockholders to approve these proposals for the following reasons:

- To raise our stock prices to levels that may result in investors finding our stock a more attractive investment;
- To reduce transaction costs for our investors; and
- To reduce our costs.

The Board of Directors has unanimously adopted a resolution seeking stockholder approval of, and recommends that you vote FOR, the four proposals.

If any of the proposals is approved, the Board will have the discretion to effect one reverse stock split at any time prior to our annual meeting in 2006, using one of the approved ratios, or to choose not to effect a reverse stock split at all, based on its determination of which action is in the best interests of Agere Systems and its stockholders. No further action on the part of our stockholders will be required to complete the reverse stock split.

Agere Systems currently has 5 billion authorized shares of Class A common stock and 5 billion authorized shares of Class B common stock. As of December 20, 2004, the record date for the annual meeting, 825,487,648 shares of Class A common stock and 907,994,888 shares of Class B common stock were outstanding. The reverse stock split, if implemented, would reduce the number of authorized shares and the number of issued and outstanding shares of any class of common stock, but would not change the par value or the voting rights of the Class A common stock or Class B common stock or new common stock, as the case may be, and, except for the impact of fractional shares, each stockholder's proportionate ownership interest in the company would be the same immediately before and after the reverse stock split.

Purposes of the Reverse Stock Split

We believe that increasing our stock price through a reverse stock split will have a number of benefits.

Increase stock price to a more attractive level for investors. We believe that a number of institutional investors and investment funds are reluctant to invest in

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lower-priced stocks and that brokerage firms may be reluctant to recommend lower-priced stocks to their clients. By effecting a reverse stock split, we may be able to raise our stock price to a level where our stock would be viewed more favorably by potential investors.

Reduced Costs for Investors. We believe that when they buy or sell Agere Systems stock, many investors pay commissions that are based on the number of shares bought or sold. Because of our relatively low stock price, an investor desiring to invest a fixed amount of money in Agere Systems stock will buy more shares, and thus may pay more in commissions, than if our stock price were higher. If we were to effect a reverse stock split using any one of the proposed reverse split ratios, we believe our stockholders may pay significantly lower total commissions when they pay commissions based on the number of shares bought or sold. Lower commissions may also make our stock an attractive investment to additional investors.

Reduced Costs for Agere Systems. As of December 1, 2004, we had approximately 1.8 million record and beneficial holders of our Class A common stock and approximately 3.0 million record and beneficial holders of our Class B common stock. For each of these holders, we pay annual account servicing costs and the cost of printing and mailing annual reports and proxy statements. Many of these stockholders received their shares as a result of our spin-off from Lucent and have a small number of shares. Often, these stockholders find it uneconomical to sell their shares because brokerage costs are significant, in some cases exceeding the value of the shares sold. If we were to effect a reverse stock split, we would reduce the number of stockholders because holders who would own less than one share of stock after the reverse stock split will receive cash in lieu of a fractional share. This would reduce our stockholder servicing costs and should provide some of our stockholders with a more economical way to dispose of their interest in Agere Systems.

Risks Associated with the Reverse Stock Split

We cannot assure you that the market price per share of Class A common stock or Class B common stock or new common stock, as the case may be, immediately after the reverse stock split will rise in proportion to the reduction in

the number of shares of that class outstanding before the reverse stock split or that it will not fall thereafter. For example, based on the reported last sale price of our Class A common stock on December 20, 2004 of \$ 1.28 per share, if the Board were to implement a reverse stock split and utilize a ratio of 1-for- 20 , we cannot assure you that the post-split market price of our Class A common stock would be \$ 25.60 ($\$ 1.28 \times 20$) per share or greater. In many cases, the market price of a company's shares declines after a reverse stock split.

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We also cannot assure you that the reverse stock split will result in a per share stock price that will attract additional investors or increase analyst coverage.

Stockholders who otherwise would be entitled to receive fractional shares will only be entitled to a cash payment in lieu of such shares and will no longer have any rights as a stockholder with respect to such fractional shares.

Principal Effects of the Reverse Stock Split

If approved and implemented, the principal effects of the reverse stock split would include the following:

depending on the ratio for the reverse stock split implemented by the Board, each 10, 20, 30 or 40 shares of Class A common stock or Class B common stock or new common stock, as the case may be, you own will be combined into one new share;

the number of shares of each class of Agere Systems' common stock issued and outstanding will be reduced proportionately based on the ratio selected by the Board;

the total number of shares of Class A common stock and Class B common stock or new common stock, as the case may be, that we are authorized to issue will each be reduced proportionately based on the ratio selected by the Board;

appropriate adjustments will be made to stock options and restricted stock units granted under company plans to maintain the economic value of the awards;

the number of shares reserved for issuance under Agere Systems' existing stock-based compensation plans will be reduced proportionately based on the ratio selected by the Board (and any other appropriate adjustments or modifications will be made under the plans);

the conversion price of our 6.5% Convertible Subordinated Notes due 2009 and the number of shares reserved for issuance upon conversion will be adjusted based on the ratio selected by the Board; and

the number of one one-thousandths of a share of Series A Junior Participating Preferred Stock purchasable upon exercise of each of the preferred share purchase rights granted to stockholders pursuant to our rights agreement will be multiplied by 10, 20, 30, or 40 (depending on the ratio selected by the Board) and one right will continue to be associated with each share of common stock.

The shares of common stock resulting from the reverse stock split will remain fully paid and non-assessable. The reverse stock split will not affect the public registration of our common stock under the Securities Exchange Act of 1934.

Fractional Shares

No fractional shares will be issued in connection with the reverse stock split. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares of a class of common stock (each class will be considered individually

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and separate from the other) not evenly divisible by the number selected by the Board for the reverse stock split ratio will be entitled, upon surrender of any certificate(s) representing such shares, to a cash payment in lieu thereof. We will arrange for a third party to aggregate the fractional shares of registered stockholders, sell them in the open market and deliver the proceeds to those stockholders. We will pay any brokerage commissions in connection with the sale.

Accounting Matters

The par value of each share of our Class A common stock and Class B common stock, or new common stock, as the case may be, will remain at \$.01 after the reverse stock split. As a result, as of the effective time, the stated capital on our balance sheet attributable to our common stock will be reduced proportionately based on the reverse stock split ratio selected by the Board, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. In future financial statements, we will restate net income or loss and other per share amounts for periods ending before the reverse stock split to give retroactive effect to the reverse stock split.

United States Federal Income Tax Consequences

The following is a summary of the material U.S. federal income tax consequences to our stockholders and to Agere Systems of the proposed reverse stock split and, if the proposed reclassification of shares of our Class A common stock and Class B common stock into shares of new common stock is also effected, the proposed reclassification. We believe that the proposed reverse stock split and the proposed reclassification would be treated as a single, integrated transaction for U.S. federal income tax purposes if both transactions are effected one after the other.

This discussion is based on the Internal Revenue Code, the Treasury Regulations promulgated thereunder, published statements by the Internal Revenue Service and other applicable authorities on the date of this proxy statement, all of which are subject to change, possibly with retroactive effect. This discussion does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. Further, it does not address any state, local or foreign income or other tax consequences, or any consequences based on facts particular to a given holder. This summary assumes that the shares of our Class A common stock and Class B common stock are held as capital assets, as defined in the Internal Revenue Code, immediately prior to the proposed reverse stock split and, if applicable, the proposed reclassification. This discussion does not consider any effect of the proposed reverse stock split and, if applicable, the proposed reclassification on the tax-free status of our spin-off from Lucent.

Subject to the discussion below concerning the treatment of the receipt of cash payments instead of fractional shares, we believe that the material U.S. federal income

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tax consequences of the proposed reverse stock split and, if applicable, the proposed reclassification are as follows:

No gain or loss will be recognized for U.S. federal income tax purposes by any of the holders of our Class A common stock or any of the holders of our Class B common stock, as the case may be, as a result of the proposed reverse stock split and, if applicable, the proposed reclassification.

A stockholder's basis for the Class A common stock and Class B common stock, as the case may be, immediately after the proposed reverse stock split and, if applicable, the proposed reclassification, will be the same as the stockholder's aggregate basis for the Class A common stock and Class B common stock held by that stockholder immediately before the transaction(s).

The holding period for the Class A common stock, Class B common stock, or new common stock, as the case may be, will include such stockholder's holding period for the Class A common stock and/or Class B common stock (held immediately prior to the proposed reverse stock split and, if applicable, the proposed reclassification) that is treated for U.S. federal income tax purposes as being exchanged therefor.

No gain or loss will be recognized for U.S. federal income tax purposes by Agere Systems as a result of the proposed reverse stock split and, if applicable, the proposed reclassification.

In general, if you receive cash instead of a fractional share of our Class A common stock, Class B common stock or new common stock, as the case may be, you will recognize capital gain or loss based on the difference between the amount of cash received and your adjusted basis in our Class A common stock and/or Class B common stock (held immediately prior to the proposed reverse stock split and, if applicable, the proposed reclassification) that is attributable to the fractional share. The capital gain or loss will constitute long-term capital gain or loss if your holding period for our Class A common stock and/or Class B common stock (held immediately prior to the proposed reverse stock split and, if applicable, the proposed reclassification) is greater than one year. The deductibility of capital losses is subject to limitations.

We cannot assure you that the Internal Revenue Service or the courts will not take contrary positions. You should consult your tax advisor for a full understanding of the tax consequences of the proposed reverse stock split and, if applicable, the proposed reclassification.

No Appraisal Rights

Stockholders do not have any appraisal rights under Delaware General Corporation Law or under our certificate of incorporation in connection with the reverse stock split.

Required Vote

The proposed amendments to our certificate of incorporation which would effect a reverse stock split each require the approval of:

The holders of a majority of the outstanding shares of Class A common stock and Class B common stock, voting together as a single class;

The holders of a majority of the outstanding shares of Class A common stock, voting as a separate class; and

The holders of a majority of the outstanding shares of Class B common stock, voting as a separate class.

Reservation of Right to Abandon Reverse Stock Split

The Board reserves the right to abandon the reverse stock split without further action by our stockholders at any time before the time the amendment to our certificate of incorporation to be filed with the Secretary of State of the State of Delaware becomes effective, regardless of whether the reverse stock split has been authorized by our stockholders. Although the Board does not currently anticipate exercising its right to abandon the reverse stock split and is not currently aware of specific events that would cause it to abandon the reverse stock split, should the Board subsequently determine that the reverse stock split is no longer in the best interests of the company or its stockholders, the Board will not proceed with the reverse stock split. By voting in favor of the reverse stock split, you are also expressly authorizing the Board to determine not to proceed with, and abandon, the reverse stock split if it should so decide.

The completion of the reverse stock split is expressly contingent upon the continuing effectiveness of an opinion of counsel we have received from Cravath, Swaine & Moore LLP that the reverse stock split will not adversely affect the tax-free status of Agere Systems spin-off from Lucent.

Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates

If stockholders approve one or more of the reverse stock split proposals and the Board decides to implement a reverse stock split, we will file with the Secretary of State of the State of Delaware a certificate of amendment to our certificate of incorporation. The reverse stock split will become effective at the time of filing of, or at such later time and date as is specified in, the certificate of amendment, which we refer to as the effective time. Beginning at the effective time, each certificate representing shares of Class A common stock or Class B common stock or new common stock, as the case may be, will be deemed for all corporate purposes to evidence ownership of the number of whole shares of that class into which the shares previously represented by the certificate were combined pursuant to the reverse stock split.

Following any reverse stock split, stockholders holding physical certificates will need to exchange those certificates for new certificates and a cash payment in lieu of any fractional shares, and we expect that each of our classes of common stock, or our new

common stock, as the case may be, will receive a new CUSIP number. No action will be required on the part of registered stockholders who hold their shares in direct registration form or by stockholders who hold their shares through a brokerage firm or otherwise in street name.

We will advise registered stockholders who hold certificates of the procedures to be followed to exchange those certificates in a letter of transmittal to be sent to those stockholders. No new certificates will be issued to a stockholder

until the stockholder has surrendered the stockholder's outstanding certificate(s), together with a properly completed and executed letter of transmittal, to our transfer agent. Any old shares submitted for transfer, whether pursuant to a sale, other disposition or otherwise, will automatically be exchanged for new shares. **Stockholders should not destroy any stock certificate(s) and should not submit any certificate(s) until requested to do so.**

Expiration of Prior Authorization

At the 2003 Annual Meeting of Stockholders, we sought and received stockholder approval for a reverse stock split. However, we did not believe it necessary or advisable to effect a reverse stock split in 2003. Our previous approval expired on February 19, 2004, the date of our last annual meeting. We now believe that a reverse stock split may again be desirable. We request authorization to effect the reverse stock split at any time prior to our annual meeting in 2006.

The Board of Directors recommends a vote FOR each of the proposals.

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ITEM 7 PROPOSAL TO APPROVE AN AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO MAKE ADMINISTRATIVE CHANGES

We are asking you to approve several administrative changes to our certificate of incorporation. These changes include:

Eliminating outdated and possibly confusing references to our former parent, Lucent. Our certificate of incorporation contains a number of provisions providing Lucent with rights and governing our common stock before our spin-off. Now that the spin-off has been completed and these provisions are no longer effective, we propose to remove them. These provisions include:

Lucent's right to convert its Class B common stock into Class A common stock before the spin-off (Article IV, Section 4.03(f)(1));

A provision that if Lucent were to transfer its Class B common stock prior to the spin-off, that stock would automatically be converted into Class A common stock (Article IV, Section 4.03(f)(2));

Restrictions on Lucent's ability to sell or convert its Class B common stock before the spin-off (Article IV, Section 4.03(f)(3) - (5));

Lucent's right to take action by written consent and call special meetings of stockholders (Article V, Section 5.01); and

Lucent's ability to remove Directors with or without cause prior to the spin-off (Article VII, Section 7.04).

Renumbering Section 4.02 of Article IV of the certificate of incorporation to make it consistent and more readable.

We believe that making these changes will clarify our certificate of incorporation and make it easier for investors to understand the document. We do not intend this proposal to make any substantive change to the certificate of

incorporation. Adoption of the proposed amendment will have no effect upon the future operations or capital structure of the company.

No Appraisal Rights

Stockholders do not have any appraisal rights under Delaware General Corporation Law or under our certificate of incorporation in connection with this proposal.

Required Vote

A majority of the votes entitled to be cast by the holders of outstanding shares of common stock, voting together as a single class is required to approve the proposed amendment. In addition, the affirmative vote of the holders of at least 80% of our outstanding common stock, voting together as a single class, is required to amend Article V, Section 5.01 and Article VII, Section 7.04 of the certificate of incorporation. If we obtain a majority vote but not an 80% vote, we will not amend Article V, Section 5.01 and Article VII, Section 7.04.

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Procedure for Effecting Amendment

If stockholders approve the proposed amendment to the certificate of incorporation, we will file with the Secretary of State of the State of Delaware a certificate of amendment to our certificate of incorporation. The proposed amendment to the certificate of incorporation will become effective at the time of filing of, or at such later time and date as is specified in, the certificate of amendment.

The Board of Directors recommends a vote FOR this proposal.

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PERFORMANCE GRAPHS

The following graphs compare the cumulative total stockholder return on our common stock to that of the S&P 500 Index, the S&P 500 Semiconductors Index and the Philadelphia Semiconductor Index. The graphs assume that a \$100 investment was made in our common stock and each of the indices at the earliest date shown, and that dividends, if any, were reinvested in all cases except for the Philadelphia Semiconductor Index. In previous years, we have used the Philadelphia Semiconductor Index in our performance graphs. We are switching the comparison from the Philadelphia Semiconductor Index to the S&P 500 Semiconductors Index because of the difficulty of assuming the reinvestment of dividends in the Philadelphia Semiconductor Index. The stock price performance shown on the graphs is not necessarily indicative of future price performance.

The following graph compares the cumulative total stockholder return on our Class A common stock to that of the S&P 500 Index, the S&P 500 Semiconductors Index and the Philadelphia Semiconductor Index from March 28, 2001, the date on which our Class A common stock began trading on the New York Stock Exchange, through September 30, 2004.

| | <u>28-Mar-01</u> | <u>30-Sep-01</u> | <u>30-Sep-02</u> | <u>30-Sep-03</u> | <u>30-Sep-04</u> |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Agere Systems Class A Common Stock | \$ 100.00 | \$ 68.77 | \$ 18.27 | \$ 51.00 | \$ 17.44 |
| S&P 500 Index | \$ 100.00 | \$ 90.32 | \$ 71.81 | \$ 89.33 | \$ 101.73 |
| S&P 500 Semiconductors Index | \$ 100.00 | \$ 73.55 | \$ 46.79 | \$ 87.05 | \$ 72.23 |
| Philadelphia Semiconductor Index | \$ 100.00 | \$ 68.56 | \$ 43.71 | \$ 77.02 | \$ 70.49 |

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The following graph compares the cumulative total stockholder return on our Class B common stock to that of the S&P 500 Index, S&P 500 Semiconductors Index and the Philadelphia Semiconductor Index from June 3, 2002, the date on which our Class B common stock began trading on the New York Stock Exchange, through September 30, 2004.

| | <u>3-June-02</u> | <u>30-Sep-02</u> | <u>30-Sep-03</u> | <u>30-Sep-04</u> |
|------------------------------------|------------------|------------------|------------------|------------------|
| Agere Systems Class B Common Stock | \$ 100.00 | \$ 31.63 | \$ 92.33 | \$ 32.59 |
| S&P 500 Index | \$ 100.00 | \$ 78.79 | \$ 98.01 | \$ 111.60 |
| S&P 500 Semiconductors Index | \$ 100.00 | \$ 49.98 | \$ 92.96 | \$ 77.14 |
| Philadelphia Semiconductor Index | \$ 100.00 | \$ 52.78 | \$ 93.00 | \$ 85.12 |

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REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

One of the functions of Agere Systems' Compensation Committee is to oversee the company's compensation plans and practices. We work with management to establish Agere Systems' compensation philosophy and the outlines of Agere Systems' compensation programs.

We also review and establish the individual compensation levels for members of senior management. In doing so, we consider the advice of independent, outside consultants in determining whether the amounts and types of compensation the company pays its leaders are appropriate.

Executive Compensation Philosophy

Our compensation program was designed to attract, motivate and retain the highly talented individuals Agere Systems needs to drive business success. The program reflects the following principles:

Compensation should be related to performance

Our compensation program reinforces the company's business and financial objectives. Employee compensation will vary based on company and individual performance. When the company performs well based on financial and non-financial measures, employees will receive greater incentive compensation. When the business does not meet objectives or is facing financial challenges, incentive awards will be reduced. An employee's individual compensation will also vary based on the person's performance, contribution and overall value to the business. And, employees with sustained high performance should be rewarded more than those in similar positions with lesser performance.

Agere Systems employees should think like Agere Systems stockholders

We believe that Agere Systems employees should act in the interests of Agere Systems stockholders and the best way to encourage them to do that is through an equity stake in the company. We do this in a number of ways. Stock option grants have been made to most employees. In addition, we have an employee stock purchase plan that enables employees to purchase Agere Systems stock at a discount through payroll deductions and 401(k) plans under which U.S. employees can invest in Agere Systems common stock. Our goal is to have market competitive stock programs that encourage each employee to act like an owner of the business.

Incentive compensation should be a greater part of total compensation for more senior positions

The proportion of an individual's total compensation that varies with individual and company performance objectives should increase as the individual's business responsibilities increase.

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Other goals

Our compensation program is designed to balance short and long term financial objectives, build stockholder value and reward individual and company performance.

When we determine compensation levels for executive officers, we review compensation survey data from independent sources to ensure that our total compensation program is competitive. We look at compensation data from companies in our industry as well as from companies in a broad cross-section of industries. We target overall compensation levels between the 50th and the 75th percentile of our industry comparison group.

It is our policy to have the compensation paid to the company's five most highly compensated executive officers qualify as performance-based and deductible for federal income tax purposes under Section 162(m) of the Internal Revenue Code unless there is a valid compensation reason that would justify paying non-deductible amounts. That statute provides that compensation paid to those individuals in excess of \$1 million per year is not deductible for federal income tax purposes unless it is performance based and a number of other requirements are met. We have structured our incentive plans so that bonuses and stock options can be fully deductible. Base salaries would count towards the \$1 million limit, as would perquisites. Additional compensation that would be non-deductible would

typically take the form of sign-on or guaranteed bonuses and restricted stock units agreed to when we hire an officer in order to provide the individual with an incentive to join the company and relocation benefits, to the extent that the aggregate amount of all non-deductible compensation exceeds the \$1 million limit. We believe that all of the compensation paid in fiscal 2004 to the individuals in the Summary Compensation Table will be deductible for federal income tax purposes.

Components of Our Compensation Program

The components of our executive compensation program are:

Base Salary

Short Term Bonus

Medium Term Incentives

Long Term Incentives

1. Base Salary

We target base salaries for senior management at levels that are comparable to similar positions at comparable companies. We review surveys periodically to ensure that our salaries are competitive. We believe that compensation above competitive levels should come primarily from the variable portion of the compensation package.

2. Short Term Bonus

We designed the bonus component of incentive compensation to align employees' pay with the short term performance of the company. In fiscal 2004, bonuses for all employees,

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including senior management, were tied to achievement of annual revenue, operating income and cash flow targets. We have, at times, also set specific performance goals to address a compelling business issue. For example, in fiscal 2003, after a severe industry decline and during a period of intense restructuring when the company was incurring significant financial losses, we set a target of returning the company to profitability. The sooner the goal was met, the greater the bonus our executive officers would receive. We ultimately met that goal in the fourth quarter of fiscal 2003.

3. Medium Term Incentives

In fiscal 2004, we wanted to encourage senior management to improve the company's revenues when compared to those of our peers, while at the same time, not sacrificing profitability. We adopted our 2004-2005 Medium-Term Incentive Plan, which provides for cash payments to participating executives to the extent that the company improves its revenue compared to the revenue of a group of competitors over a two-year performance period, so long as the

profitability target in our financial plan is also met. We set aggressive targets under the plan so that we would have to see significant improvement in our relative competitive position before payments would be made. At the end of fiscal 2004, which is halfway through the program, our performance would not entitle senior management to payments under the plan. We adopted a similar plan for the fiscal 2003-fiscal 2004 performance period. Our performance over that period did not qualify for any payments under the plan.

4. Long Term Incentives

We believe that making employees think like owners is a key objective for our compensation program and that retention of our senior management team is essential to Agere Systems' success. We have an annual stock option grant program that addresses these goals. Target grants were based on a review of the grant practices of our industry comparison group. Actual grants were then adjusted based on individual performance, impact to the business and retention, and to take into account participation in the Medium-Term Incentive Plan.

We have actively been trying to reduce the number of options granted each year as a percentage of our outstanding shares. We have found in recent years that if we were to give our executives stock option grants with values that were competitive with those of other companies in our industry, we would end up granting more stock options in total than we want to grant. In order to make up this shortfall in long term incentive value, we have offered senior management our Medium-Term Incentive Plan and pay higher levels of cash compensation than we might otherwise.

Compensation of the Chief Executive Officer

We believe that Mr. Dickson has continued to provide strong leadership for the company through our ongoing restructuring to address difficult market conditions, and has implemented difficult decisions to adapt the company to changing demand from our customers.

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In fiscal 2004, Mr. Dickson's salary remained at \$800,000 per year. Based on his performance, the company's performance and salaries paid by other semiconductor companies and companies in a cross-section of industries, we felt that this salary continued to be appropriate.

In fiscal 2004, we granted Mr. Dickson a stock option for 2.5 million shares. We believed that this grant, when combined with his opportunity under the 2004-2005 Medium-Term Incentive Plan, provided Mr. Dickson with the ability to achieve long term compensation that was competitive with long term compensation packages offered by members of our compensation comparison group if the company's absolute performance as well as its relative performance compared to its peers improved considerably.

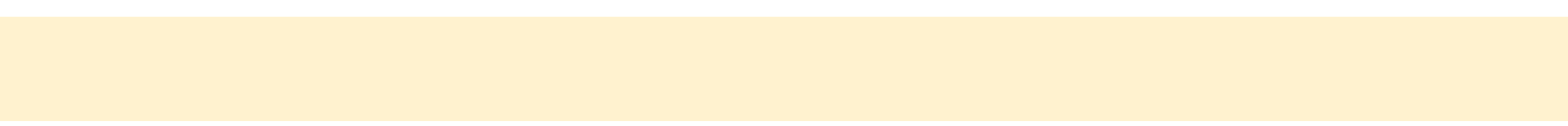
As described above, bonuses for fiscal 2004 for all employees, including Mr. Dickson, depended on the extent to which the company met revenue, operating income and cash flow targets that we set at the beginning of the year. The company's actual performance against these targets would have resulted in bonus funding equal to 32% of employees target bonuses. Mr. Dickson's \$320,000 bonus was equal to 32% of his target bonus. For the remaining employee population, including other members of senior management, we provided bonus funding equal to 50% of the total target bonuses. We provided this higher level of funding to employees generally in order to enhance our ability to retain our employees and to recognize their efforts and results and the quality of their execution during the year.

Rae F. Sedel (Chair)

Richard S. Hill
Harold A. Wagner

**EXECUTIVE COMPENSATION
SUMMARY COMPENSATION TABLE**

**All Other
Compensation
(\$)(5)**



es, indexed to CDI, through the spread of these securities or future contracts with the Futures and Commodities Exchange - BM&F, exc

al N.V. (TII) acquired an indirect controlling interest in the Company or in Brasil Telecom S.A., these and TIM Brasil ServiÇos e Pa
to various corporate agreements, including an instrument called Merger Agreement and a Protocol related thereto. Among other r

Brazil, using the capitalization system to determine the costs. Currently contributions are made by the participants and the sponsor only

CONSOLIDATED

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PARENT COMPANY

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| 110,333 |
| 215,640 |
| 84,668 |
| 247,315 |
| 106,099 |
| 119,427 |
| 883,482 |
| 883,482 |

CONSOLIDATED

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| 18,277 |
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| 18,277 |

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CONSOLIDATED

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ORDER TO SHOW CAUSE WITH TEMPORARY RESTRAINING

INDEX

SIGNATURE
