

AGERE SYSTEMS INC
Form DEFA14A
December 05, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14A-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant X

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Check appropriate box:

Preliminary Proxy Statement
 Confidential, For Use of the Commission Only (as permitted
by Rule 14a-6(e)(2))

Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material under Rule 14a-12

AGERE SYSTEMS INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

No fee required.
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(2) Form, Schedule or Registration Statement No.:

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The following slides were used in presentations to investors and employees held on December 4, 2006 regarding the merger of Agere Systems Inc. and LSI Logic Corporation:

**The Creation of a Storage, Networking
and Consumer Powerhouse**

December 2006

Safe Harbor

Cautionary Statement Regarding Forward-Looking Statements

This document contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The forward-looking statements contained in this document include statements about future financial and operating results; benefits of the transaction to customers, shareholders and employees; potential synergies and cost savings resulting from the transaction; the ability of the combined company to drive growth and expand customer and partner relationships and other statements regarding the proposed transaction. These statements are not guarantees of future performance, involve certain risks, uncertainties and assumptions that are difficult to predict, and are based upon assumptions as to future events that may not prove accurate. Therefore, actual outcomes and results may differ materially from what is expressed herein. For example, if LSI and Agere do not each receive required shareholder approval or the parties fail to satisfy other conditions to closing, the transaction will not be consummated. In any forward-looking statement in which LSI or Agere expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement or expectation or belief will result or be achieved or accomplished.

The following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements: failure of the LSI and Agere shareholders to approve the proposed merger; the challenges and costs of closing, integrating, restructuring and achieving anticipated synergies; the ability to retain key employees; and other economic, business, competitive, and/or regulatory factors affecting the businesses of LSI and Agere generally, including those set forth in the filings of LSI and Agere with the Securities and Exchange Commission, especially in the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections of their respective annual reports on Form 10-K and quarterly reports on Form 10-Q, their current reports on Form 8-K and other SEC filings. LSI and Agere are under no obligation to (and expressly disclaim any such obligation to) update or alter their forward-looking statements whether as a result of new information, future events, or otherwise.

Additional Information and Where You Can Find It

This communication may be deemed to be solicitation material in respect of the proposed transaction between Agere and LSI. In connection with the transaction, LSI will file a registration statement on Form S-4 with the SEC containing a joint proxy statement/prospectus. The joint proxy statement/prospectus will be mailed to the shareholders of LSI and Agere. Investors and security holders of LSI and Agere are urged to read the joint proxy statement/prospectus when it becomes available because it will contain important information about LSI, Agere and the proposed transaction. The joint proxy statement/prospectus (when it becomes available), and any other documents filed by LSI or Agere with the SEC, may be obtained free of charge at the SEC's web site at www.sec.gov. In addition, investors and security holders may obtain free copies of the documents filed with the SEC by LSI and Agere by contacting, respectively, LSI

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Investor Relations by e-mail at investorrelations@lsi.com
or by telephone at 1-800-433-8778 or by contacting Agere Investor Relations by e-mail at investor@agere.com.com
or by telephone at 1-800-372-2447. Investors and
security holders are urged to read the joint proxy statement/prospectus and the other relevant materials when they
become available before making any voting or
investment decision with respect to the proposed transaction. LSI, Agere and their respective directors and executive
officers may be deemed to be participants in the
solicitation of proxies from their shareholders in favor of the proposed transaction. Information about the directors and
executive officers of LSI and Agere and their
respective interests in the proposed transaction will be available in the joint proxy statement/prospectus.

Non-GAAP Financial Measures

Non-GAAP financial measures exclude gain or loss from the sale of, and income or loss from, discontinued operations; restructuring-related charges included in costs; primarily increased depreciation; certain other non-cash charges including equity compensation; net restructuring and other charges; purchased in-process research and development charges, amortization of acquired intangible assets, net gain or loss from the sale of operating assets, certain tax adjustments, cumulative effect of accounting changes, and certain nonrecurring charges.

**The Creation of a Storage, Networking
and Consumer Powerhouse**

Transaction Overview

¹ Based on closing stock price of LSI on 12/01/2006

Approval by LSI and Agere shareholders, customary closing conditions and regulatory approvals

Conditions

First calendar quarter 2007

**Anticipated
Close**

Jim Keyes, Non-Executive Chairman

9 directors; 6 designated by LSI and 3 designated by Agere

**Board of
Directors**

Abhi Talwalkar, President & CEO

Bryon Look, CFO

Leadership

52% LSI shareholders; 48% Agere shareholders

**Pro Forma
Ownership**

Stock-for-stock transaction valued at approximately \$4B¹

Consideration

Each share of Agere will be exchanged for 2.16
LSI shares

Terms

\$500M stock repurchase program authorized

**Stock
Repurchase**

The Right Combination at the Right Time

Operating Expense Improvements

Strong Balance Sheet

Operating Income Growth

**Deliver Long-Term
Growth and
Profitability**

Storage

Networking

Mobility

Storage

Consumer

**Aligned
Businesses to
Focused Strategy**

New leadership teams in 2005

**New Leadership
and Structure**

**Transformation
Milestones**

LSI Market Segments

\$251M

Consumer

DVD Recorder

**Consumer
Appliance**

**OEM Storage
Systems**

Enterprise HDDs

SAN Infrastructure

Int. Server Storage

Storage Systems

Storage Semi

\$1.4B

Storage

\$312M

**Enterprise
Connectivity**

Comm.

*** Total revenue from last 4 quarters ending Sept 06**

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Agere Market Segments

\$625M

Storage

Desktop HDDs

Notebook HDDs

Consumer HDDs

\$394M

Mobility

**GPRS / EDGE / 3G
Handsets**

*** Total revenue from last 4 quarters ending Sept 06**

\$551M

Networking

SAN Infrastructure

SMB

Wireless/Wireline

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Strategic Rationale for Combination

Multiple revenue streams

Sizable synergies of at least \$125M/year

Expected to be meaningfully accretive to non-GAAP EPS in 08*

Strengthen

Financials

Storage: Grow within and beyond the enterprise

Networking: Expand quality of service into the premise

Mobility: Grow from a solid GPRS/EDGE base

Entertainment CE: Expand media processing strength

Grow

Revenue

Engines

Customers: Increasing value in focus markets

IP: >10,000 issued and pending US patents combined

Talent: >4,200 combined engineers with >1,700 PhD s & MSEE s

Extend

Industry

Leadership

Creating a storage, networking and consumer powerhouse

*** CY 2008**

Highly Complementary Strategic Fit

Small/Medium Business

Enterprise Connectivity

Media Processing

Consumer

\$644M

Combined

Network

\$863M

Storage

\$2.0B

Market Focus

SAN Semi

HDD Semi

Strength

Agere

LSI

Business Segment

GPRS/EDGE/3G

Wired/Wireless Public Infrastructure

Server & Storage Semi

Storage Systems

*

*

*

*** Total combined revenue from last 4 quarters ending Sept 06**

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Grow Revenue Engines - Storage

Silicon = >\$1.28B Systems = \$742M

**Internal & External RAID
Products**

**Server Storage
Components**

**SAN
Infrastructure**

HDD / Tape

*** Total combined revenue from last 4 quarters ending Sept 06**

*

Grow within and beyond the enterprise

*

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Grow Revenue Engines - Storage HDD

Agere

LSI

**Current HDD
Position**

Grow silicon footprint

New integration opportunities

Expand customer presence

**Unique platform for innovation with
silicon to systems position**

Increase market coverage

Growth Opportunities

Consumer

Mobile

Desktop

Enterprise

2009 HDD Semi TAM = \$4.5B*

Collective expertise in read channel,
motor controller, pre-amp, and SOCs

Opportunity to grow footprint in all
segments

Complete HDD product offering for all segments

* Based on IDC 06 - 09 Semiconductor Revenue Forecast

Motor
Controller

Read/Write
Channel

Hard Disk
Controller

Preamp

SOC

Spindle Motor

Head

Drive Electronics

VCM

Media

Extend Industry Leadership

>10,400

>5,800

>4,600

US Patents**

>1,700

>4,200

\$849M

Combined

>800

>1,900

\$404M

>900

PhD s & MSEE s

>2,300

Total Engineers

\$445M

R&D Investment*

*** GAAP numbers for the last 4 quarters ending Sept 06.**

**** Pending and Issued**

Strengthen Financials

Committed to increasing shareholder value

*

*

\$1.4B in combined cash with almost \$700M in net cash*

**Balance
Sheet**

Expected to be meaningfully accretive to non-GAAP EPS in 2008

- Before the effect of any share repurchases

**Shareholder
Value**

Substantial cost savings in calendar year 2007

Annualized cost savings of at least \$125M in 2008

Increased efficiencies in manufacturing and operating expenses

**Operational
Efficiencies**

The new LSI is better positioned to deliver sustainable long-term revenue growth with multiple growth engines

**Revenue
Growth**

**Based on balance sheets for the quarters ended September 2006
as adjusted to reflect LSI's subsequent redemption of \$272M**

Successful Integration Roadmap

Focused on value creation and efficient integration

Mobilize

Plan

Implement

Ensure seamless transition from customer service and product delivery perspective

Integration plan focused on key value drivers

Revenues

Synergies

Organizational Structure

Formation of joint integration team led by LSI and Agere CEOs

Leveraging talent and experience from both companies

A Compelling Combination

Shareholders

Positions the new LSI for long term growth and profitability

Delivers significant operational synergies

\$500M stock repurchase program authorized

Employees

Increases our overall competitiveness

Strengthens position within the industry

Customers

Delivers expanded technology, design competencies and systems expertise

More R&D in focused areas

BACKUP

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7 New Additions to LSI Executive Staff

Established CTO Office

Added 3 New BOD Members in Q3 '06

Significant Progress on LSI Transformation

Focused on Storage and Consumer

No longer broad base ASIC supplier

Terminated RapidChip, Sold ZSP

Moved to Fabless Model

Sold Gresham for \$105M

**New leadership
and structure**

**Aligned Businesses
to Focused Strategy**

**Extract synergies
across product lines**

**Deliver Long-Term
Growth & Profitability**

Integrated Silicon to Systems Storage
Offering to Server/Storage OEMs

Steady Progress Towards Business Model

Double Digit Op Inc Growth

Strong Balance Sheet Position

Agere - Successful Turnaround in Progress

Focus on assessing
and aligning the
business

Leadership changes

Corporate wide vision
& strategy

Evaluate opportunities
to partner

Design Wins in flight to
grow revenues in 2H 07

**Drive competitive levels
of revenue growth**

**15%+ non-GAAP
operating margins**

Revenue Growth

Earnings Growth

Stabilization

Focus on driving
growth in earnings

Narrowing of
investment areas

**Achieve consistent
double digit non GAAP
operating margins**

FY06 represented the first full year of GAAP profitability

Home Networks

High-Speed
Transmission

Decades of experience

with TM algorithms

System-on-a-Chip

Integration

Grow Revenue Engines - Networking

Public Wireless/Wired Network

Business Networks

**Common Software &
Hardware**

Service enabled platforms for
the Home, SMB, Enterprise,
and Public Access Networks

TrueOne converged IP
network delivering high quality
and reliable services

Voice, Video, Data Mobile

Significant LSI enterprise
connectivity expertise

Expand quality of services to the premise

Expanding business with
Samsung in GPRS, EDGE & 3G

135M cell phones worldwide
using Agere silicon

TrueNTRY line of products
enables CD quality music in cell
phones

Customer expansion with Amoi
and Chi Mei

Early entrant with high-bandwidth
HSDPA solution

Source: Gartner & Agere consolidated view, Jan 2006

CY09e

Grow Revenue Engines - Mobility

Total Handsets Unit Volumes (Mu)

Focused on the high
volume sweet-spot of
the handset market

Grow from a solid GPRS/EDGE base

HD STB

iDTV

PND (Navi)

BD / HD

PMP / Mobile

HD Home Media Server

Today (2006)

**eToy / Edu.
(ZEVIO)**

**DVDR / Prof.
(DoMiNo®)**

Preserve strong position in DVDR
utilizing DoMiNo® architecture

Expand into new markets based
on industry transition to
MPEG4/H.264/VC-1

Expand into portable consumer
markets based with ZEVIO

E- toys, Edutainment, Personal
Navigation

Expand into adjacent consumer
markets (iDTV, STB)

Display & Channel Technology

Grow Revenue Engines - Entertainment CE

Expand media processing strength into adjacencies

ADDITIONAL INFORMATION AND WHERE TO FIND IT

This communication may be deemed to be solicitation material in respect of the proposed transaction between Agere Systems Inc. ("Agere") and LSI Logic Corporation ("LSI"). In connection with the proposed transaction, Agere and LSI intend to file relevant materials with the Securities and Exchange Commission (the "SEC"), including the filing by LSI with the SEC of a Registration Statement on Form S-4 (the "Registration Statement"), which will include a preliminary prospectus and related materials to register the shares of LSI common stock to be issued in the merger, and LSI and Agere plan to file with the SEC and mail to their respective stockholders a Joint Proxy Statement/Prospectus relating to the proposed transaction. **THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT/PROSPECTUS WILL CONTAIN IMPORTANT INFORMATION ABOUT LSI, AGERE, THE TRANSACTION AND RELATED MATTERS. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT/PROSPECTUS CAREFULLY WHEN THEY ARE AVAILABLE.** Investors and security holders will be able to obtain free copies of the Registration Statement and the Joint Proxy Statement/Prospectus and other documents filed with the SEC by LSI and Agere through the website maintained by the SEC at www.sec.gov. In addition, free copies of the Registration Statement and the Joint Proxy Statement/Prospectus and other documents will also be available when they become available on the Agere website at www.agere.com and on the LSI website at www.lsi.com. The Registration Statement, the Joint Proxy Statement/Prospectus and other relevant documents may also be obtained free of charge from Agere by directing such request to Investor Relations, Agere Systems Inc., 110 American Parkway N.E., Allentown Pennsylvania 18109 and from LSI by directing such request to Investor Relations, LSI Logic Corporation, 1621 Barber Lane, Milpitas, California 95035. The contents of the websites referenced above are not deemed to be incorporated by reference into the Registration Statement or the Joint Proxy Statement/Prospectus. Agere, LSI and their respective officers, directors and employees may be deemed to be participants in the solicitation of proxies from their respective stockholders with respect to the proposed transaction. Information regarding the interests of these officers, directors and employees in the proposed transaction will be included in the Joint Proxy Statement/Prospectus.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS AND OTHER IMPORTANT INFORMATION

This document contains statements regarding the proposed transaction between Agere and LSI, the expected timetable for completing the transaction, future financial and operating results, benefits and synergies of the proposed transaction and other statements about Agere and LSI managements' future expectations, beliefs, goals, plans or prospects that are based on current expectations, estimates, forecasts and projections about Agere and LSI and the combined company, as well as Agere's and LSI's and the combined company's future performance and the industries in which Agere and LSI operate and the combined company will operate, in addition to managements' assumptions. These statements constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements which are not statements of historical facts. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to assess. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. These risks and uncertainties are based upon a number of important factors including, among others: the ability to consummate the proposed transaction; difficulties and delays in obtaining regulatory approvals for the proposed transaction; difficulties and delays in achieving synergies and cost savings; potential difficulties in meeting conditions set forth in the definitive merger agreement entered into by Agere and LSI; general economic and geopolitical factors, changes in the semiconductor and storage systems industries; the highly competitive nature of the segments in which Agere and LSI operate; reliance on a limited number of customers; the ability of suppliers to fill orders on a timely and reliable basis; the ability to hire and retain qualified personnel; the complex nature of Agere and LSI products; existing and future litigation; difficulties and costs in protecting intellectual property rights and exposure to infringement claims by others. For a more complete list and description of such risks and uncertainties, refer to Agere's Form 10-K for the year ended September 30, 2006 and LSI's Form 10-K for the year ended December 31, 2005, as well as other filings by Agere and LSI with the US Securities and Exchange Commission. Except as required under the US federal securities laws and the rules and regulations of the US Securities and Exchange Commission, Agere and LSI disclaim any intention or obligation to update any forward-looking statements after the distribution of this document, whether as a result of new information, future events, developments, changes in assumptions or otherwise.