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Frank Wiese The Morning Call

AN AGERE OPERATOR is bathed in light near a furnace as he works in a clean room at Agere Systems, Allentown. As Agere becomes independent of Lucent Technologies, investors will receive shares of Agere according to a formula.

Agere: hold or sell?

Lucent shareholders to get stock in the Allentown company as spinoff is done.

By Christian Berg
Of The Morning Call

Millions of Lucent Technologies investors will become Agere Systems stockholders on June 1, when Lucent completes its long-planned spinoff of the Allentown company.

About 945 million Agere shares will be distributed in the spin, which will complete Agere's separation as an independent company and more than double the number of tradable shares.

Those Agere shares will be parceled out to Lucent's 5 million stockholders. That includes thousands of Lehigh Valley residents who invested in Lucent directly or obtained stock as a result of their employment at Lucent or Agere.

So, what should investors do with their Lucent and Agere stock after the spinoff?

The answer depends on who is giving the advice.

Financial professionals who handicap investments for a living warn that Lucent and Agere shares could drop sharply in the days immediately following the spinoff, as millions of new Agere shares flood the market and Lucent takes a hit from the lost value of its Agere ownership.

But they also generally agree that the value of both stocks could rise

significantly over the next year or two, due in large part to an expected recovery in the telecommunications industry.

Despite that, experts say price is just one of many factors people need to consider when deciding whether a stock is right for them.

Other issues include an investor's tolerance for risk, current financial situation, tax implications, portfolio diversity and long-term investment goals.

More than half a dozen stock ana-

"You actually own a piece of a company here. It's not just a wiggly little [price] chart."

JEREMY LOPEZ
Morningstar analyst

lysts and personal financial planners offered recommendations that ranged from selling all stock in Lucent and Agere to buying more. Most opinions were somewhere in between.

Understand your investments

Before investing in any stock, it's important to understand what the company does, said Jeremy Lopez, who studies Agere. He's an analyst with Morningstar, an independent rating agency that does not do any investment banking.

"You actually own a piece of a company here," Lopez said. "It's not just a wiggly little [price] chart."

For Lucent and Agere, that means investors need a basic understanding of the telecommunications industry, which is now in the worst recession in its history.

"You want to understand the business end, and you want to understand some of the financial risks Agere and Lucent face," Lopez said.

Lucent, of Murray Hill, N.J., is the biggest U.S. maker of telecom equipment used by customers such as Verizon and AT&T to build wired and wireless communications networks.

Agere, of Allentown, is the world's No. 1 maker of microchips used in communications devices such as cell phones, wireless modems, hard disk drives and satellite radios. The company also is a top maker of components used in high-speed fiber-optic networks, which use lasers to turn electronic voice and data signals into beams of light.

The telecommunications industry downturn has devastated business at Lucent and Agere, which rely on spending from large telecom service providers to drive sales.

Over the past year, both companies have laid off thousands of workers, sold business units and restructured their operations to align expenses with declining revenue.

Lucent stock has fallen more than 50 percent in the past year to about

Leaders learn about education

Program helps grow people interested in helping the community

By Hang Nguyen
Of The Morning Call

Cindy Glick, community affairs manager at Bethlehem candy r Just Born, handles school solicitations for money. But she doesn't know much about the education system and would like to learn

So in October, she signed up for the Institute for Community Leadership in Education. Participants in the eight-month program learn about state and local education policies.

As a result, she's been paying more attention to where the Democratic governor candidate stands on education. Come Tuesday she'll be a more informed voter, she says.

And that's the objective of the program, which is run by the Election Policy and Leadership Center, a nonprofit group founded by a politician.

The institute on Tuesday held its first graduating class in Lehigh Valley. Glick was among graduates, of whom more than came from the business community.

"It's a very good, in-depth program," Glick said. A news nugget she uncovered was that Pennsylvania is one of nine states where kindergarten isn't mandatory.

Just Born paid about \$400 for Glick to attend sessions once a month in the building of the American Red Cross of the Greater Lehigh Valley in Bethlehem.

Gene Ervin, chairman of the Lehigh Valley Business/Education Partnership, calls the program unique to Lehigh Valley. However, it does have similar qualities to other partnerships and to Leadership in Education.

The partnership and the institute's goals are the same, but the way they get there is different. The institute tries to educate community and business leaders so they have an impact on education, such as by running for a school board. The partnership gets business education leaders together to develop programs and initiatives to improve the education system.

Leadership Lehigh Valley, where the institute is modeled after, is a group of people to be leaders in a variety of public sector areas. But unlike local leadership, the institute focuses just on one public issue: education.

"The institute certainly fills a gap," Ervin said. His partnership put together a 25-member advisory committee for the institute. It also helped recruit participants for

AGERE

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Agere spinoff brings question: hold or sell?

\$4.70 a share. Agere stock is down more than 40 percent, to about \$4.10 a share.

Of course, long-term investors remember back to December 1999, when Lucent shares traded at more than \$80 a share. The stock has steadily slid to its present level since then.

"We've seen plenty of other telecom equipment makers go to zero, and that's what you want to avoid at all costs as investors," Lopez said.

Although Lopez believes Lucent and Agere would benefit from a telecom recovery, he doesn't believe that will happen this year. He advises investors to think carefully when deciding how much Agere to keep in their portfolio.

"If I owned this, I would look for other options," Lopez said. "I think there are better fish in the sea if you're going to invest in the microchip sector."

Don't panic

Ariane Mahler, an analyst who covers Lucent for investment bank Dresdner Kleinwort Wasserstein, disagrees with Lopez. She believes patient investors can turn a nice profit on Lucent and Agere stock.

"I think if you own Lucent as an investor or an employee, and you hold onto these shares, over time you will do OK," Mahler said. "If these people can be a little patient, then... the next year or two could become very exciting for them."

Mahler said following her advice may require some fortitude, since there are several factors that could hurt the price of Lucent and Agere shares immediately following the spinoff.

Lucent's ownership of Agere accounts for about \$1 of

the company's current stock price, Mahler said. When Lucent divests its Agere holdings June 1, that will drag down Lucent's stock price.

"By definition, they will have lost some value for shareholders," Mahler said.

Early market activity indicates that completion of the spinoff could push the price of Lucent shares down by more than \$1.

Trading of special stock called "Lucent when issued," which reflects the value of Lucent after the company spins off its Agere shares, began last week, Lucent spokeswoman Michelle Davidson said. The shares traded Thursday at \$3.66 a share, which was about \$1.20 below Lucent's actual stock price at the time.

For Agere, there are two reasons its stock could slide immediately following the spinoff.

The main reason, Mahler said, is that the spinoff will more than double the number of Agere shares available for stock market trading.

Lucent sold 600 million Agere shares during the company's initial public offering in March 2001. Another 945 million share will be distributed in the spinoff.

In rough terms, Lucent investors will get one share of Agere Class A common stock for every 92.8 Lucent shares they own and one share of Agere Class B common stock for every 3.8 Lucent shares.

Both classes of stock have the same equity ownership in Agere, but Class B shares carry four votes for determining Agere's board of directors, compared to one vote for Class A shares.

If a lot of Lucent stockholders decide to sell their Agere stock right away, the oversupply could depress the share price.

Another potential drain on Agere's stock price is that it is not likely to be included in the Standard & Poor's 500 Index, Mahler said.

The S&P 500 is an index of 500 stocks of companies from all major industries; it includes Lucent. The index serves as a barometer of the U.S. economy. Inclusion is based on factors such as market capitalization, industry

representation and profitability.

Deutsche Bank analyst Raj Srikanth said it is unlikely that Agere will be included in the S&P 500 because the company is not making a profit and has a relatively weak balance sheet.

Being part of the S&P 500 helps boost a stock's value, because billions of dollars are invested in mutual funds that seek to mimic index performance. If Agere is not added to the index, managers of those funds would be forced to sell the Agere shares they receive from Lucent.

Srikanth estimates that will result in the sale of about 75 million Agere shares immediately after the spinoff. Share prices could be pushed lower if there are many more sellers than buyers.

Mahler said investors should look at any possible drop as a temporary situation that doesn't reflect Agere's long-term value.

"It could be a tough period around spinoff time, simply because of supply and demand factors," Mahler said. "My sense is that over the period of the next year or so, Agere will almost certainly go up in value. I almost don't care what it does the first few days, because that's just technical issues."

Have a long-term perspective

Although several events could hurt the value of Lucent and Agere shares in the short term, many analysts believe investors will be rewarded for holding onto the stocks for the long-haul.

Dan Shin, a stock analyst who covers Lucent for investment bank Robert W. Baird & Co., said the spinoff is a plus for both companies.

Lucent originally planned to complete the Agere spinoff in September, but was twice forced to postpone the transaction because of its own financial struggles.

Meeting the financial goals required to complete the spinoff is a sign of improving results at Lucent, Shin said.

Lucent, for instance, had to post a quarterly profit before interest, taxes, depreciation and amortization.

"Just to be able to complete

that process I think is definitely positive to the psyche of Lucent owners," Shin said. "I have been at this job for two years, and I can honestly say that for the first time, I am warming up to the Lucent story."

Shin expects the telecom slump to continue during the second quarter, which ends June 30. But he expects sales to begin a slow recovery after that.

It was encouraging that Lucent increased its wireless product sales during the first quarter, he said, while competitors such as Nokia and Motorola continued to see sales declines.

"I would definitely encourage investors to hold for the long-haul," Shin said. He has a "market outperform" rating on Lucent stock, with a 12-month target price of \$9 a share.

Another Lucent analyst, Steven D. Levy of Lehman Brothers, said Lucent's cost-cutting efforts are starting to pay off. He predicts the company could break even by year's end.

"Our belief is that the stock can get to \$9 or \$10 by the end of the year," said Levy, who has a "strong buy" rating on Lucent stock.

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"One positive for Agere is that with the spinoff, they should be able to attract some customers that previously had been reluctant to deal with a subsidiary of Lucent," said Tom Smith, Standard & Poor's director of information technology research. "They may be able to broaden their customer base."

Standard & Poor's does not have an investment banking business and does not rate stocks trading for less than \$5, Smith said.

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prove its balance sheet.

At the end of the second fiscal quarter ended March 31, Agere had cash of \$1.6 billion and \$1.1 billion in debt. That gave the company net cash of just \$493 million. Srikanth said the spinoff should help the company quickly address that. He predicts Agere's net cash will increase to \$600 million by the end of the third fiscal quarter on June 30.

Srikanth is encouraged by strong growth in Agere's wireless networking business. The company is establishing itself as a market leader in that area, he said.

"We recommend investors wait for the storm to blow over from the spinoff and then start accumulating Agere shares," Srikanth wrote last week in a report to investors.

In that report, he noted that Agere's current share price is a substantial discount compared to other companies in the communications chip business.

Be diversified

No matter how enthusiastic you are about the long-term prospects of Lucent or Agere, the most important rule for any investor is to be diversified, said Christopher M. Jones, a fee-only financial planner from Forks Town-

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Jones, who mainly deals with clients with a net worth of \$1 million or more, is so obsessed with diversification that he believes most investors shouldn't hold individual stocks at all.

"For most ordinary people, owning an individual stock is terribly risky," Jones said. "The best way to invest money is to use a diversified portfolio of index funds."

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first class and secure a place to hold the sessions.

The partnership will continue to aid the institute and help its class size grow. As the Education Policy and Leadership Center, headquartered in Harrisburg, looks to expand its program elsewhere in the state, a deciding factor will be whether the location offers a center also has a pilot program in Pittsburgh.

The Harrisburg center was

created three years ago. The center was founded shortly after former representative Ronald Cowell left the state legislature in 1998. For half of the 24 years he was a legislator, he was the Democratic chairman of the House Education Committee.

"When he left, he wanted to continue to focus on [education] policies," said Sharon Brumbaugh, leadership manager for the center.

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Vacation swaps of dwellings can work out

Q: I've heard about people swapping apartments with others when they go on vacation. Is that a good idea?

A: Arranging to swap your apartment or house with someone else while you're traveling can solve a number of problems all at once: Saving on lodging costs, getting someone to water your plants or mind your pets and

decreasing the chances of a break-in while you're away.

What's more, you can also see the place you're visiting as a resident by having a home base. Arthur Frommer, a veteran travel writer and author of many guidebooks, is a big fan of home swaps.

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Lopez, the Morningstar analyst, said diversification is particularly important for

older people counting on their investment portfolio for retirement income. They cannot afford to take risks on volatile stocks, he said.

The importance of diversification is logical. But what if you already own Lucent stock and will be getting a lump of Agere shares next month anyway?

Smith, the Standard & Poor's researcher, said you can still diversify by examining how your Agere shares fit into your overall portfolio.

For example, Smith said, the technology sector represents about 15 percent of the overall stock market, while semiconductors represents only about 3.5 percent.

"If people wake up and find Agere is more than 4 or 5 percent of their equity portfolio, they should go talk with their personal financial adviser," Smith said.

In that instance, one diversification strategy would be to sell small portions of Lucent and Agere shares on a regular basis over a period of months or years, Smith said.

That method helps investors reap some benefits if the stocks rise and cut their losses if shares fall. It also reduces the potential tax liability they will incur in any given year.

"You don't necessarily have to sell it all today," Smith said, "but you might want to methodically dollar average your way out."

A final note of caution from the experts is to resist the urge to buy Agere simply because it is a well-known, locally based company. Although there is nothing wrong with owning stocks of local interest, experts say it makes sense only if they fit in with your other holdings and overall investment strategy.

"I would say root for your local baseball or football team, but don't do that with your finances," Lopez said. "I can understand why someone would want to support the local economy, but there are better ways to do that than putting your retirement money into Agere."

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One way is to go through friends or a professional association to find someone to

swap with. But in any case, it's very important to establish trust with the people with whom you intend to swap homes.

Ask for references, talk to their bosses, friends and neighbors to make sure they're trustworthy. And remember — you'll be staying in their home as well, so they've got an incentive to treat your home just as well as they expect you to treat theirs.