ADC TELECOMMUNICATIONS INC
Form 10-Q/A
July 13, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2
to
FORM 10 Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2001

OR

TRANSACTION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission file number 0 1424

ADC Telecommunications, Inc.
(Exact name of registrant as specified in its charter)

Minnesota	41 0743912
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

13625 Technology Drive, Eden Prairie, MN 55344-2252
(Address of principal executive offices) (Zip code)

(952) 938 8080
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ___X__ NO _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, $.20 par value: 781,598,363 shares as of March 9, 2001.

With respect to our Quarterly Report on Form 10-Q for the quarter ended January 31, 2001, we hereby amend the following: (1) Item I to add a note regarding the components of our non-cash stock compensation expense in the Consolidated Statements of Income Unaudited and (2) Item 3 to expand upon the potential volatility of our common stock investments in other publicly traded companies contained in our investment portfolio. No other amendments to our Quarterly Report on Form 10-Q are being made through this filing.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS UNAUDITED

(In millions)

ASSETS

	January 31, 2001	October 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$153.9	$217.3
Available for sale securities	557.8	1,136.9
Accounts receivable	622.9	702.7
Inventories	536.9	486.1
Prepaid income taxes and other assets	406.9	107.9
Total current assets	2,278.4	2,650.9
PROPERTY AND EQUIPMENT, net	682.6	608.6
OTHER ASSETS, principally goodwill	761.0	711.0
	$3,722.0	$3,970.5

LIABILITIES AND SHAREOWNERS INVESTMENT

	January 31, 2001	October 31, 2000
CURRENT LIABILITIES:		
Accounts payable	$232.1	$211.3
Accrued liabilities	357.9	435.7
Accrued income taxes	353.7	365.8
Notes payable and current maturities of long term debt	186.5	28.5
Total current liabilities	1,130.2	1,041.3
LONG TERM DEBT, less current maturities	15.0	16.5
Total liabilities	1,145.2	1,057.8
SHAREOWNERS' INVESTMENT		
(780.8 and 770.3 shares outstanding, respectively)	2,576.8	2,912.7
	$3,722.0	$3,970.5

See accompanying notes to consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(In millions, except earnings per share)

	Three Months Ended January 31,	
	2001	**2000**
NET SALES	$804.8	$593.9
COST OF PRODUCT SOLD	496.1	315.3
GROSS PROFIT	308.7	278.6
EXPENSES:		
Research and development	76.5	75.2
Selling and administration	174.8	129.8
Goodwill amortization	17.6	5.6
Non recurring charges	33.3	--
Non-cash stock compensation(1)	4.9	0.6
Total expenses	307.1	211.2
OPERATING INCOME	1.6	67.4
OTHER INCOME (EXPENSE), NET:		
Interest	0.9	4.5
Other	1.8	(3.5)
INCOME BEFORE INCOME TAXES	4.3	68.4
PROVISION FOR INCOME TAXES	2.1	15.3
NET INCOME	$2.2	$53.1
AVERAGE COMMON SHARES OUTSTANDING (BASIC)	772.7	699.7
EARNINGS PER SHARE (BASIC)	$0.00	$0.08
AVERAGE COMMON SHARES OUTSTANDING (DILUTED)	803.2	730.1

EARNINGS PER SHARE (DILUTED)	$0.00	$0.07

(1) Non-cash stock compensation expense resulted from stock options and restricted stock converted in connection with the Centigram and Broadband Access Systems acquisitions. We do not incur any other non-cash stock compensation expense in the ordinary course of business. If we had reported this non-cash stock compensation in existing expense categories, research and development expense and selling and administration expense would have increased by $1.8 million and $3.1 million, respectively, for the three months ended January 31, 2001 and $0.4 million and $0.2 million, respectively, for the three months ended January 31, 2000.

See accompanying notes to consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
(In millions)

	Three Months Ended January 31,	
	2001	**2000**
OPERATING ACTIVITIES:		
Net income	$2.2	$53.1
Adjustments to reconcile net income to net cash from operating activities -		
Inventory and fixed asset write-offs	39.6	--
Depreciation and amortization	47.6	29.6
Non-cash stock compensation	4.9	0.6
Increase in deferred income taxes	1.2	--
Gain on ownership of investments	(3.7)	--
Other	(7.2)	0.6
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	89.3	19.1
Inventories	(51.1)	(36.2)
Prepaid income taxes and other assets	(71.7)	(14.8)
Accounts payable	4.2	(20.5)
Accrued liabilities	(142.6)	2.1
Total cash (used for) from operating activities	(87.3)	33.6
INVESTMENT ACTIVITIES:		
Acquisitions	(48.7)	(18.0)
Property and equipment additions	(93.3)	(49.0)
Marketable securities and short term investments	--	23.2
Long term investments	(7.8)	5.4
Total cash used for investment activities	(149.8)	(38.4)
FINANCING ACTIVITIES:		
Borrowings/(Repayments) of debt	154.4	(26.3)
Common stock issued	19.0	50.7
Total cash from financing activities	173.4	24.4

EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.3	(0.6)
DECREASE IN CASH AND CASH EQUIVALENTS	(63.4)	19.0
CASH AND CASH EQUIVALENTS, beginning of period	217.3	279.0
CASH AND CASH EQUIVALENTS, end of period	$153.9	$298.0

See accompanying notes to consolidated financial statements

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
SUPPLEMENTAL FINANCIAL INFORMATION UNAUDITED
(In millions, except earnings per share)

	1st Quarter 2001	4th Quarter 2000	3rd Quarter 2000	2nd Quarter 2000
NET SALES	$804.8	$1,032.0	$891.4	$770.6
COST OF PRODUCT SOLD	496.1	513.5	442.9	407.3
GROSS PROFIT	308.7	518.5	448.5	363.3
EXPENSES:				
Research and development	76.5	96.0	84.1	82.8
Selling and administration	174.8	202.4	177.3	156.0
Goodwill amortization	17.6	14.4	7.8	6.4
Non recurring charges	33.3	34.2	115.0	8.8
Non-cash stock compensation	4.9	42.8	2.5	1.2
Total expenses	307.1	389.8	386.7	255.2
OPERATING INCOME	1.6	128.7	61.8	108.1
OTHER INCOME (EXPENSE), NET:				
Interest	0.9	5.1	4.2	5.6
Gain on conversion of investment	--	--	--	722.6
Gain on sale of a business	--	--	--	328.6
Other	1.8	30.0	(0.9)	(1.8)
INCOME BEFORE INCOME TAXES	4.3	163.8	65.1	1,163.1
PROVISION FOR INCOME TAXES	2.1	76.7	55.5	444.9
NET INCOME	$2.2	$87.1	$9.6	$718.2

AVERAGE COMMON SHARES OUTSTANDING (BASIC)	772.7	733.9	715.1	708.0
EARNINGS PER SHARE (BASIC)	$0.00	$0.12	$0.01	$1.01
AVERAGE COMMON SHARES OUTSTANDING (DILUTED)	803.2	781.6	758.8	746.1
EARNINGS PER SHARE (DILUTED)	$0.00	$0.11	$0.01	$0.96

See accompanying notes to consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

Note 1 **Basis of Presentation**: All historical financial information has been restated to reflect the acquisitions of PairGain Technologies, Inc. (PairGain) and Broadband Access Systems, Inc. (BAS) which were completed in the third quarter and fourth quarter of fiscal year 2000, respectively, and were accounted for as poolings of interests.

The interim information furnished in this report is unaudited but reflects all adjustments which are necessary, in the opinion of management, for a fair statement of the results for the interim periods. The operating results for the quarter ended January 31, 2001 are not necessarily indicative of the operating results to be expected for the full fiscal year. These statements should be read in conjunction with our most recent Annual Report on Form 10 K.

Recently Issued Accounting Pronouncements

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements (SAB 101). SAB 101, as amended, summarizes some of the SEC s views in applying generally accepted accounting principles to revenue recognition in financial statements. At this time, we do not expect the adoption of SAB 101 to have a material effect on our operations or financial position. We are required to adopt SAB 101 in the fourth quarter of fiscal 2001.

Note 2 **Inventories**: Inventories include material, labor and overhead and are stated at the lower of first in, first out cost or market. Inventories consisted of (in millions):

	January 31, 2001	October 31, 2000
Purchased materials and manufactured products	$507.2	$452.4
Work in process	29.7	33.7
	$536.9	$486.1

Note 3 **Acquisitions**: On November 20, 2000, we acquired France Electronique S.A. s telecom systems integration business (France Electronique) based near Paris, France. France Electronique s systems integration services enable communications service providers to offer applications that integrate Internet, e-mail, voicemail, fax and voice services for delivery to wireless and wireline communication devices. We paid $44 million in cash to complete the transaction, which was accounted for using the purchase method. The entire value of the transaction is primarily goodwill and is being amortized over 7 years using a straight-line method.

On February 26, 2001, we acquired all of the outstanding equity interests in CommTech Corporation, a Cranbury, New Jersey-based company (CommTech). CommTech is a provider of end-to-end service order management, provisioning and activation software for communications service providers. In the transaction, we issued approximately 11.65 million shares of our common stock to CommTech s shareholders. We also converted all outstanding CommTech stock options into options to acquire approximately 1.6 million shares of our common stock. The transaction was accounted for as a pooling of interests. Since the historical operations of CommTech were not material to our consolidated operations or financial position, prior period financial statements will not be restated for this acquisition.

Note 4 **Comprehensive (Loss) Income:** The following table presents the calculation of comprehensive income as required by SFAS No. 130. Comprehensive income has no impact on our net income, balance sheet or shareowners equity. The components of comprehensive income are as follows (in millions):

	Three Months Ended January 31,	
	2001	2000
Net income	$2.2	$53.1
Changes in cumulative translation adjustments	3.8	(0.3)
Changes in market value of derivative financial instruments classified as cash flow hedges	1.8	--
Unrealized (loss) gain from securities classified as available for sale, net of taxes	(366.0)	45.8
Comprehensive (loss) income	$(358.2)	$98.6

We own a minority interest in the following publicly held companies. These investments are stated at market value with the valuation adjustments classified in shareowners investment. As of January 31, 2001, the market value of these investments was as follows (in millions):

ONI Systems Corp.	$213.3
Redback Networks, Inc.	178.3
GlobeSpan, Inc.	80.5
Vyyo, Inc.	26.3
Efficient Networks, Inc.	21.6
InfoInterActive, Inc.	3.4
interWAVE Communications International Ltd.	0.9
Total	$524.3

In addition, we own an approximate 22% interest in MIND C.T.I. Ltd. (MIND). As of January 31, 2001, our investment in MIND had a market value of approximately $35.2 million. This investment is accounted for using the equity method. Under the equity method, a pro rata portion of MIND s profits or losses is reflected in our consolidated income statement.

On February 22, 2001, Siemens and Efficient Networks, Inc. announced that they have entered into a definitive merger agreement. Pursuant to the merger agreement, Siemens will purchase all of the outstanding shares of Efficient Networks for $23.50 in cash per share. The merger transaction is expected to close in April 2001. As of January 31, 2001, we held approximately 1.8 million shares of Efficient Networks at a cost basis of $4.3 million.

Note 5 **Earnings Per Share**: Basic earnings per common share was calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share was calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus all additional common shares that would have been outstanding if potentially dilutive common shares had been issued. The following table reconciles the number of shares utilized in the earnings per share calculations for the periods ended January 31, 2001 and 2000 (in millions, except earnings per share):

Three Months Ended
January 31,

	2001	2000
Net income	$2.2	$53.1
Earnings per common share (basic)	$0.00	$0.08
Earnings per common share (diluted)	$0.00	$0.07
Weighted average common shares outstanding (basic)	772.7	699.7
Effect of dilutive securities - stock Options	30.5	30.4
Weighted average common shares outstanding (diluted)	803.2	730.1

Note 6 **Segment Reporting**: The management approach required by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires us to disclose selected financial data by operating segment. This approach is based upon the way management organizes segments within an enterprise for making operating decisions and assessing performance. We have identified three reportable segments based on our internal organization structure, management of operations and performance evaluation. These segments are: Broadband Connectivity, Broadband Access and Transport, and Integrated Solutions. Segment detail is summarized as follows:

Segment Information (In millions)

	Broadband Connectivity	**Broadband Access and Transport**	**Integrated Solutions**	**Unallocated Items**	**Consolidated**
Three months ended January 31, 2001:					
External Sales	$420.0	$229.7	$155.1	$--	$804.8
Operating Income (Loss)	150.0	(37.1)	(18.1)	(93.2)(1)	1.6
Three months ended January 31, 2000:					
External Sales	$267.0	$218.7	$107.8	$0.4	$593.9
Operating Income (Loss)	101.5	(32.9)	8.5	(9.7)	67.4

(1) Excluding goodwill amortization and certain other income/(expense) items, includes non-cash stock compensation charges of $4.9 million and non-recurring and other restructuring related charges of $76.4 million. (See Note 7).

Note 7 **Non-Recurring and Other Restructuring Related Charges:** During the first quarter of 2001, we launched an initiative to discontinue product lines that no longer fit our current focus and growth strategy and to consolidate unproductive and duplicative facilities. The non recurring charges and restructuring related charges associated with this program totaled $70.9 million ($46.4 million net of tax) for the quarter ended January 31, 2001. The restructuring plans are to be completed by the end of the first quarter of fiscal year 2002. An additional $5.5 million ($3.5 million net of tax) related to prior year acquisition integration and restructuring initiatives was also incurred in the first quarter of 2001. As of January 31, 2001, a total of $19.1 million of these charges and initatives had been expended and $57.3 million was accrued as a future liability. Non-recurring and restructuring related charges by category of expenditures are as follows for the quarter ended January 31, 2001 (in millions):

	Cost of Sales Charges	Non recurring Charges	Selling and Administration Charges	Total
Inventory and committed sales contracts	$36.3	$--	$--	$36.3
Employee severance costs	--	18.0	--	18.0
Fixed asset write-downs	--	9.4	--	9.4
Contract termination costs	--	--	5.4	5.4
Other	--	5.9	1.4	7.3
Total	$36.3	$33.3	$6.8	$76.4

Inventory and committed sales contract related charges represent losses incurred to write down the carrying value of inventory and costs of exiting and maintaining certain committed sales contracts for product lines that have been discontinued. Revenues and gross margins from these product lines were not material to our consolidated operations.

Employee severance costs relate to the closure of facilities, elimination of product lines and general terminations resulting from reduced sales forecasts. We reduced our workforce by approximately 1,100 employees during the first quarter of 2001. These terminations occurred across all business segments. As of January 31, 2001, substantially all of the affected employees had been terminated.

The write-down of fixed assets primarily relates to fixtures and equipment that will no longer be used as a result of the discontinuation of certain product lines as well as to facility closures. These fixtures and equipment were written down to their realizable value. By centralizing certain key functional areas and exiting certain unprofitable product lines, we intend to increase operating efficiencies and, ultimately, profit growth in the long term.

Contract termination costs represent the administrative expenses needed to complete certain committed sales contacts. These costs are primarily due to our decision to exit certain product lines.

Other expenses primarily represent lease termination costs and other costs associated with facility closures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in foreign exchange rates. To mitigate the risk from these exposures, we have instituted a balance sheet hedging program. The objective of this program is to protect our net monetary assets and liabilities from fluctuations due to movements in foreign exchange rates. This program operates in markets where hedging costs are beneficial. We attempt to minimize exposure to currencies in which hedging instruments are unavailable or prohibitively expensive by managing our operating activities and net asset positions. The majority of hedging instruments utilized are forward contracts with maturities of less than one year. Foreign exchange contracts reduce our overall exposure to exchange rate movements, since gains and losses on these contracts offset losses and gains on the underlying exposure. Our policy prohibits the use of derivative financial instruments for trading and other speculative purposes.

As documented in the Liquidity and Capital Resources section as well as Note 4 to the Unaudited Consolidated Financial Statements, we own common stock in several publicly held companies in the telecommunications or technology industries. Due to material changes in the fair value of such common stock, we have recorded a $400.3 million unrealized loss, $252.2 million net of income tax effects, in shareowners investment as of January 31, 2001. Assuming an immediate decrease of 20% and 50% in the portfolio stock price from the closing price on January 31, 2001, the hypothetical reduction in shareowners investment related to these holdings is estimated to be $66.1 million and $165.2 million, respectively (net of income tax effects), or 2.6% and 6.4%, respectively, of total shareowners investment at January 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 13, 2001

ADC TELECOMMUNICATIONS, INC.

By: /s/ Robert E. Switz

Robert E. Switz
Senior Vice President, Chief Financial Officer