

ADC TELECOMMUNICATIONS INC

Form 10-K/A

March 13, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form 10-K/A
(Amendment No. 1)**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2006.
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

**Commission File No. 0-1424
ADC Telecommunications, Inc.**
(Exact name of registrant as specified in its charter)

Minnesota
*(State or other jurisdiction of
incorporation or organization)*
**13625 Technology Drive
Eden Prairie, Minnesota**
(Address of principal executive offices)

41-0743912
*(I.R.S. Employer
Identification No.)*
55344-2252
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered:
Common Stock, \$.20 par value	The NASDAQ Global Select Market
Preferred Stock Purchase Rights	

**Securities registered pursuant to Section 12(g) of the Act:
None**

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant based on the last sale price of such stock as reported by The NASDAQ Global Select Market® on April 28, 2006, was \$2,260,420,391.00.

The number of shares outstanding of the registrant's common stock, \$0.20 par value, as of January 5, 2007, was 117,264,069.

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the information required by Part III of this Form 10-K is incorporated by reference from portions of our definitive proxy statement for our 2007 Annual Meeting of Shareowners to be filed with the Securities and Exchange Commission.

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Explanatory Note:

This Amendment No. 1 on Form 10-K/A to the Annual Report on Form 10-K for the fiscal year ended October 31, 2006 and filed with the Securities and Exchange Commission on January 9, 2007 amends and restates our consolidated statements of operations, consolidated balance sheets, consolidated statements of shareowners investment, notes 4, 10, 13, and 17 to our consolidated financial statements and certain other information. This Amendment has been made to reflect adjustments to our accounting for the amount of impairment charge we recorded during the third and fourth quarters of fiscal 2006 in connection with the disposal of our APS France professional services business.

The information contained in this Amendment, including the financial statements and notes thereto, amends or restates the following only:

Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Part II, Item 8. Financial Statements and Supplementary Data. Notes 4, 10, 13 and 17.

Part II, Item 9A. Controls and Procedures.

Signatures.

Exhibit 23-a. A currently dated consent letter is included from our Independent Registered Public Accounting Firm dated March 9, 2007.

Certifications from our Chief Executive Officer and Chief Financial Officer as required by Rules 13a-14(a) or 15d-14(a) and 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, included as exhibits.

Restatement

In the third quarter of fiscal 2006, our Board of Directors approved a plan to divest our APS France professional services business. As a result, we classified the APS France professional services business as discontinued operations in the third quarter of fiscal 2006 and recorded a related impairment charge of \$10.6 million. We closed on the sale of the APS France professional services business in our first fiscal quarter of 2007. As we were preparing our final accounting for the closing of this transaction, we became aware that at the time we recorded the \$10.6 million impairment charge in the third quarter of fiscal 2006, we should have included an additional \$6.7 million (and an additional \$0.3 million in the fourth quarter) related to the write off of the currency translation adjustment account balance, in accordance with the requirements of Emerging Issues Task Force 01-5, *Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of*. Neither we nor our independent registered public accounting firm considered the application of EITF 01-5 at the time of the preparation and review of our third quarter and fiscal year end financial statements for fiscal 2006. Note 18 of the Notes to the Consolidated Financial Statements contained in this Amendment No. 1 to our Annual Report on Form 10-K/A sets forth the effects of the restatement on certain line items within our previously reported consolidated statements of operations, consolidated balance sheets and consolidated statements of shareowners investment.

As this additional impairment charge was a non-cash item related to discontinued operations, this amendment had no impact on the following financial statement items for the year ended October 31, 2006, as originally filed:

Operating income

Income from continuing operations

Basic and diluted earnings per share from continuing operations

Working capital or any asset or liability account

Cash flow from operations continuing operations

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Total shareowners investment.

Management's Annual Report on Internal Control over Financial Reporting

In our Annual Report on Form 10-K for the year ended October 31, 2006, management concluded that our internal control over financial reporting was effective as of October 31, 2006. In connection with the restatement described above, management has now determined that a material weakness existed in our internal control over financial reporting because we did not consider the application of the accounting treatment required by EITF 01-5 for the currency translation adjustment of our APS France discontinued operations. Management is taking specific actions to remediate this material weakness. See Item 9A Controls and Procedures.

For the convenience of the reader, this Form 10-K/A sets forth the originally filed Form 10-K in its entirety. However, the only changes to the original Form 10-K being made by this filing are the changes described above. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K or modify or update any other disclosures. Information not affected by this Amendment No. 1 is unchanged and reflects the disclosures made at the time of the filing of the original Form 10-K.

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PART I

Item 1. BUSINESS

ADC Telecommunications, Inc. (ADC , we , us or our) was incorporated in Minnesota in 1953 as Magnetic Controls Company. We adopted our current name in 1985. Our World Headquarters are located at 13625 Technology Drive in Eden Prairie, Minnesota.

We are a leading global provider of communications network infrastructure solutions and services. Our products and services provide connections for communications networks over copper, fiber, coaxial and wireless media and enable the use of high-speed Internet, data, video and voice services by residences, businesses and mobile communications subscribers. Our products include fiber optic, copper and coaxial based frames, cabinets, cables, connectors, cards and other physical components essential to enable the delivery of communications for wireline, wireless, cable, and broadcast networks by service providers and enterprises. Our products also include network access devices such as high-bit-rate digital subscriber line and wireless coverage solutions. Our products primarily are used in the last mile/kilometer portion of networks. This network of copper, coaxial cable, fiber lines, wireless facilities and related equipment links voice, video and data traffic from the end-user of the communications service to the serving office of our customer. In addition, we provide professional services relating to the design, equipping and building of networks. The provision of such services also allows us additional opportunities to sell our hardware products, thereby complementing our hardware business.

Our customers include local and long-distance telephone service providers, private enterprises that operate their own networks, cable television operators, wireless service providers, new competitive service providers, broadcasters, governments, system integrators and communications equipment manufacturers and distributors. We offer broadband connectivity systems, enterprise systems, wireless transport and coverage optimization systems, business access systems and professional services to our customers through the following two reportable business segments:

Broadband Infrastructure and Access; and

Professional Services.

Our *Broadband Infrastructure and Access* business provides network infrastructure products for wireline, wireless, cable, broadcast and enterprise network applications. These products consist of:

Connectivity systems and components that provide the infrastructure to networks to connect Internet, data, video and voice services over copper, coaxial and fiber-optic cables; and

Access systems used in the last mile/kilometer of wireline and wireless networks to deliver high-speed Internet, data and voice services.

Our *Professional Services* business provides integration services for broadband, multiservice communications over wireline, wireless, cable and enterprise networks. Professional services are used to plan, deploy and maintain communications networks that deliver Internet, data, video and voice services.

Our corporate website address is www.adc.com. In the Financial Information category of the Investor Relations section of our website, we make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available free of charge as soon as reasonably practicable after such

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reports are filed with or furnished to the United States Securities and Exchange Commission (the SEC). The Corporate Governance category of the Investor Relations section of our website also contains copies of our Financial Code of Ethics, our Principles of Corporate Governance, our Global Business Conduct Program, our Articles of Incorporation and Bylaws and the charter of each committee of our Board of Directors. Each of these documents can also be obtained free of charge (except for a reasonable charge for duplicating exhibits to our reports on Forms 10-K, 10-Q or 8-K) in print by any shareowner who requests them from our Investor Relations department. The Investor Relations department's email address is investor@adc.com and its mail address is: Investor Relations, ADC Telecommunications, Inc.,

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P.O. Box 1101, Minneapolis, Minnesota 55440-1101. Information on our website is not incorporated by reference into this Form 10-K/A.

As used in this report, fiscal 2004, fiscal 2005, fiscal 2006 and fiscal 2007 refer to our fiscal years ended or ending October 31, 2004, 2005, 2006 and 2007, respectively.

Industry Background and Marketplace Conditions

Our products and services are deployed primarily by communications service providers and the owners/operators of private enterprise networks. We believe the communications industry is in the midst of a multi-year migration to next-generation networks that can deliver broadband services at low, often flat-rate, prices over any medium anytime and anywhere. We believe this transformation especially will impact the last mile/kilometer portion of networks where our products and services primarily are used. It is in this section of networks where bottlenecks in the high-speed delivery of communications services are most likely to occur.

While factors such as regulatory changes will impact the communications industry significantly, we believe there are two key elements to the migration towards next-generation networks:

First, businesses and consumers worldwide increasingly are becoming dependent on broadband, multi-service communications networks to conduct daily communications tasks. People and businesses are accessing the Internet and using Web-based software applications through broadband connections with rising frequency. Further, the growing popularity of applications such as digital video and audio programs, uploading and downloading content, podcasting, wireless data and video services, video conferencing from personal computers, video e-mail, video on demand, interactive entertainment and gaming via the Internet, distance learning, telemedicine and high-speed imaging is increasing the need for broadband network infrastructure; and

Second, end-users of communications services increasingly expect to do business over a single network connection at a low price either with service providers or by developing their own networks that can provide all of their communications needs. Both public networks operated by communications service providers and private enterprise networks are evolving to provide combinations of Internet, data, video and voice services that can be offered over the same high-speed network connection versus individual services being conducted over separate connections. We believe the competition among service providers to retain new customers over these more fully integrated networks is causing services to be offered more frequently at low, flat-rate prices as opposed to prices based on metered usage.

The evolution to next generation networks that offer services at ever lower prices is affecting our industry significantly. For one, we believe there are increased opportunities to provide market infrastructure elements that are designed to allow networks to provide more robust services and operate more efficiently. In recent years our industry has experienced modest overall spending increases and we presently expect this trend to continue. The mix of products on which our customers spend, however, is shifting towards new initiatives such as the deployment of fiber-optic networks beyond the central office of service providers and closer to the ultimate end-user, as well as to the development of more powerful private enterprise networks. The products that serve these new initiatives often have lower margins than many of our legacy products such as our copper connectivity products for central office infrastructure, which has had an impact on our gross margins. Sales of these products also are often project-based, causing our sales to fluctuate from period to period and making the timing of our sales harder to predict.

In addition, competitive pressures to win and retain customers are causing many of our service provider customers to consolidate with one another in order to gain greater scale as well as the ability to offer a wider range of wireline and wireless services. Consolidation results in larger customers who have increased buying power and fewer competitors.

In turn, we expect this will place pressure on the prices at which vendors like us can sell products and services. We also believe that consolidation among our customers is likely to cause short-term spending deferrals while the combined companies focus on integration activities. Ultimately, the rate at which our customers respond to each other's competitive threats, the buying power they likely are to

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gain from consolidation and the products they elect to purchase will impact the sales growth and profit margins of equipment vendors.

In both fiscal 2005 and fiscal 2006, the impact of the changes in our industry resulted in increased revenues and lower profit margins for our business. We believe that to succeed in this type of business environment it is imperative that we not only find ways to increase revenues but also to become more cost efficient.

In fiscal 2005, the growth of our sales outpaced that of our industry. In fiscal 2006, however, our sales increased at a slower rate that was within the range of sales growth experienced by our peers. We believe there are several reasons for this slowed rate of growth. For instance, our fiber-to-the-X (i.e., the deployment of fiber-based networks closer to the ultimate consumer, which is sometimes referred to as FTTX) customers generally became more efficient in their use of FTTX products in fiscal 2006 such that they required less of our products to pass the same number of subscribers versus what was needed in fiscal 2005. We also believe customer consolidations resulted in the deferral of certain spending decisions while the combining companies focused on integration activities. Further, spending increases on FTTX and related fiber initiatives in recent years appear to have impacted spending adversely on other wireline initiatives. Finally, as many of our products are utilized in emerging next-generation networks, deployment rates can vary significantly from customer to customer. Among other things, these deployment rates can depend upon how quickly the customer constructs these networks, the degree to which a customer's network architecture requires the use of a product and regulatory decisions regarding competitive access to the networks.

Despite slower sales growth in fiscal 2006, we continue to expect our sales to grow over time, primarily as a result of broadband initiatives as well as enterprise projects. Our ability to take advantage of any spending increases will depend on the acceptance of such products as our fiber connectivity for central offices and FTTX, our TrueNet® and CopperTen™ structured cabling solutions, our Digivance wireless coverage and our WiFi and WiMax solutions.

In addition to the need for revenue growth, we believe we must become more cost efficient in order to increase profitability on a more consistent basis. We therefore are focusing aggressively on ways to conduct our operations more efficiently. For instance, we continue to move more of our manufacturing capabilities to lower-cost locations. We also are taking steps to redesign our products so that we have more common parts across different types of products. Other steps we are taking to rationalize costs are described below in the strategy discussion.

As has been the case for many years, our business remains dependent largely on sales to communications service providers and for the year ended October 31, 2006, our top five customers in that industry accounted for 35.7% of our revenue. Our entry into enterprise markets in recent years, however, has mitigated this dependence to some degree.

Strategy

Our aim is to be the global leader in the provisioning of communications network infrastructure solutions and services. The core of our business historically has been based in providing the infrastructure elements that connect equipment in communications networks with an emphasis on solutions serving the last mile/kilometer of a network. We believe our experience with network infrastructure solutions provides us with sustainable competitive advantages in this core business. To advance this core business, in recent years we have divested businesses that were not profitable or did not support our strategic vision. In addition, we have grown our business in ways that we believe complement our strategic focus.

Ultimately, we are working to implement a growth strategy around our network infrastructure business that includes the following key elements:

a heightened focus on the needs of our customers through business execution excellence that delivers customer-specific solutions, high-quality products and world-class service;

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sales growth through market share gains and the development of new sales channels in targeted product and market segments as well as new product introductions and expansion in existing and adjacent markets through both our own research and development processes and strategic acquisitions; and

cost structure reductions through improved operational efficiencies and economies of scale to compete effectively in a more cost-conscious marketplace.

Customer Focus Through Business Execution Excellence. We are committed to helping our customers maximize their return on investment, evolve their networks and simplify network deployment challenges in providing communications services to end-users. We strive to offer customer-specific solutions, price-competitive products that provide great functionality and quality, and world-class customer service that offers on-time product delivery and highly responsive support. We believe companies that best serve their customers with compelling value propositions that include the aforementioned elements hold a competitive advantage in efforts to grow their businesses.

Growing Sales. In the current environment of constrained capital spending increases by communications service providers, we believe that we must find ways to grow our sales. Our strategy is to focus more attention for growth in certain product and market segments. These product segments include next-generation core networks, FTTX, wireless capacity/coverage, network automation and enterprise network upgrades. In addition, we intend to focus more attention on emerging markets such as China and India where we believe the potential for growth is higher than in more established markets. To grow sales, we will seek to expand our market share, develop new sales channels and expand our product breadth in existing and related markets through our own research and development efforts and strategic acquisitions.

We are undertaking several initiatives in our efforts to gain market share. Specifically, we look to sell more of our current portfolio to our existing customers, introduce new products to our existing customers, and introduce the ADC product portfolio to new customers. The cornerstone of these initiatives is our commitment to focus on the needs of our customers. We are an industry leader in the area of configure to order products. These processes provide our customers with customized product solutions that fulfill their requirements with rapid response times. We also are committed to the development and introduction of new products that have applications in our current markets and as adjacent markets focused primarily on the last mile/kilometer of networks. Examples of this are new products and services for IPTV (Internet Protocol TV), VoIP (Voice over Internet Protocol), Carrier Ethernet, Metro Ethernet, and Wireless Coverage and Capacity solutions.

We also are committed to the development of additional sales channels that can deliver our products into various market segments. We continuously seek to partner with other companies serving the public and private communication network markets to offer more complete solutions for customer needs. Our connectivity products in particular are conducive to incorporation by other equipment vendors into a systems-level solution. We also believe there are opportunities for us to sell more of our products through indirect sales channels, including systems integrators and value added resellers. We now have over 500 value-added reseller partners worldwide. In addition, we are partnering and expanding our relationships with distribution companies such as Anixter and Rexel that make our products more readily available to a wider base of customers worldwide.

Finally, to further grow our business, we continue to invest in research and development initiatives and to search for appropriate acquisition opportunities. Our internal research and development efforts are focused on those areas where we believe we are most likely to achieve success and on projects that we believe directly advance our strategic aims with a higher probability to return our investment. We seek acquisitions primarily to strengthen our core product portfolio. Our efforts are focused on opportunities within our existing markets, as well as in adjacent or related markets that will strengthen our product offerings. Our acquisition in fiscal 2005 of Fiber Optic Network Solutions Corp. (FONS), which has enhanced our FTTX offerings, is an example of this strategy. In addition, we are focused on

finding acquisitions that may enhance our geographic operations. Because several of our largest customers are consolidating to gain greater scale and broaden their service offerings, we also believe it is appropriate for companies in our industry to consolidate in order to gain greater scale and position themselves to offer a wider array of products. Our attempt to merge with Andrew Corporation during fiscal 2006, which was terminated primarily over concerns regarding the ability to obtain necessary shareholder approval, was predicated on this belief. We expect to fund potential acquisitions with

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existing cash resources, the issuance of shares of common or preferred stock, the issuance of debt or equity-linked securities or through some combination of these alternatives. We also will continue to evaluate and monitor our existing business and product lines for growth and profitability potential. If we believe it necessary, we will deemphasize or divest product lines and businesses that we no longer believe can advance our strategic vision.

Lowering Cost Structure. In light of the pricing pressures our business faces, we believe it is imperative to contain costs if we are to grow our business profitably. We remain committed to be a low-cost industry leader. We presently are implementing the following initiatives as part of an overall project we call competitive cost transformation :

relocating certain manufacturing, engineering and other operations from higher-cost geographic areas to lower-cost areas;

redesigning product lines to utilize more common components;

increasing direct material savings from strategic sourcing globally;

sunsetting end of life products; and

improving our order-to-delivery processes.

Our ability to implement this strategy and operate our business effectively is subject to numerous uncertainties, the most significant of which are described in Part 1, Item 1A Risk Factors in this Form 10-K/A. We cannot assure you that our efforts will be successful.

Product and Service Offering Groups

Our Broadband Infrastructure and Access business focuses on broadband connectivity products for a variety of network applications, DSL offerings and wireless products that improve and extend network coverage and capacity. Broadband Infrastructure and Access products accounted for approximately 84.5%, 83.6% and 85.3% of our net sales in fiscal 2006, 2005 and 2004, respectively.

Our Professional Services business focuses on planning, deploying and maintaining network infrastructure. Professional Services products and services accounted for approximately 15.5%, 16.4% and 14.7% of our net sales in fiscal 2006, 2005 and 2004, respectively.

Below we describe the primary products and services offered by each of these segments. See Note 15 to the Consolidated Financial Statements in Item 8 of this Form 10-K/A for financial information regarding our two business segments as well as information regarding our assets and sales by geographic region.

Broadband Infrastructure and Access

Our Broadband Infrastructure and Access products are used in both public and enterprise (private business and government) networks. In public networks, our products are located primarily in serving offices for telephone, cable, wireless and other communication service providers. These facilities contain the equipment used in switching, routing and transmitting incoming and outgoing communications channels. Some of our products also are located in the public networks outside the serving offices and on end-users' premises. As FTTX and the need for more flexible wireless coverage solutions continue to expand, we expect to see growth in the use of these products outside the serving offices. Our enterprise, private and governmental network customers generally purchase our products for installation in the networks located on their premises. We also

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sell connection products for broadcast and entertainment facilities. Broadband Infrastructure and Access products consist of the following general product groupings:

Broadband Connectivity Systems and Components

Our connectivity devices are used in copper (twisted pair), coaxial, fiber-optic, wireless and broadcast communications networks. These products provide the physical interconnections between network components or access points into networks. Principally, these products include:

DSX and DDF Products. We manufacture digital signal cross-connect (DSX) and digital distribution frame (DDF) modules, panels and bays, which are designed to terminate and cross-connect copper channels and gain access to digital channels for Internet, data, video and voice transmission. Within our DSX and DDF product group, we offer solutions to meet global market needs for both twisted-pair and coaxial cable solutions.

FTTX Products. ADC's OmniReach[®] product family of fiber distribution terminals, fiber access terminals, passive optical splitter modules, wavelength division multiplexer modules, connectors and drop cables is designed to bring flexibility in implementation and optimization of capital infrastructure to customers deploying FTTX.

Fiber Distribution Panels and Frame Products. Fiber distribution panels and frames, which are functionally similar to copper cross-connect modules and bays, provide interconnection points between fiber-optic cables entering a service provider's serving office and fiber-optic cables connected to fiber-optic equipment within the serving office.

RF Signal Management Products. Our series of Radio Frequency (RF) products are designed to meet the unique performance requirements of video, voice and data transmission over coaxial cable used in today's cable television networks and telephony carrier networks. Our RFWorx[®] product family leads the industry by offering the plug-and-play flexibility of combiners, splitters, couplers and forward/reverse amplification modules in a single platform designed for optimum cable management. The RFWorx system provides network design engineers with the full breadth of RF signal management tools that are essential in an evolving video, voice and data communications environment.

Power Distribution and Protection Panels. Our PowerWorx[®] family of circuit breaker and fuse panels are designed to power and protect network equipment in multi-service broadband networks.

Modular Fiber-Optic Cable Systems. Our FiberGuide[®] system provides a segregated, protected method of storing and managing fiber-optic patch cords and cables within a service provider's serving office.

Structured Cabling Products. Our TrueNet[®] Structured cabling products are the cables, jacks, plugs, jumpers, frames and panels used to connect desk top systems like personal computers to the network switches and servers in large enterprise campuses, condominium high-rise buildings and data centers. Our TrueNet[®] cabling products include various generations of twisted-pair copper cable and apparatus capable of supporting varying bandwidth requirements, as well as multi-mode fiber systems used primarily to interconnect switches, servers and commercial campus locations.

Broadcast and Entertainment Products. Broadcast and Entertainment products are audio, video, data patching and connectors used to connect and access worldwide broadcast radio and television networks. Our Pro-Patch[®] products are recognized as the industry leader in digital broadcast patching. Our ProAx[™] triaxial connectors are preferred by operators of mobile broadcast trucks, DBS satellite and large venue, live broadcasts such as the Olympic games. A new line of our HDTV products exceeds the highest performance standards in the new digital broadcast industry.

Other Connectivity Products. A variety of other products such as patch cords, media converters, splitter products and jacks and plugs are used by telecommunications service providers and private networks to connect, monitor and test portions of their networks.

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Wireless Systems and Components

Our wireless systems and components help improve and extend the coverage and capacity of wireless communications networks. These products improve signal quality by boosting the uplink signal of mobile systems to increase receiver performance. These improvements allow mobile subscribers to place more calls successfully, make longer calls, and successfully complete calls in an expanded geographic area.

These products include:

Cellular Coverage/Capacity Enhancement Solutions. Our Digivance[®] family of wireless systems products includes solutions that address a wide range of coverage and capacity challenges for wireless network operators. These solutions include (i) applications to address challenging locations such as tunnels, traffic corridors and urban centers, (ii) cellular base station hotels that serve significant segments of a metropolitan area, (iii) neutral host applications that serve multiple carriers simultaneously, and (iv) indoor products that provide complete coverage for a single building or an entire campus. These solutions are sold directly to the major cellular operators, to the national and regional carriers, including those in rural markets, and to neutral host facility providers that lease or resell coverage and capacity to the cellular carriers.

Tower Top Amplifiers. We develop, manufacture and market the ClearGain[®] family of tower-top amplifier products, which are distributed globally for all major air interfaces. These products amplify a wireless signal and are sold primarily to wireless carriers.

Wireline Systems

Our Soneplex[®] and HiGain[®] wireline products enable communications service providers to deliver high capacity voice and data services over copper or optical facilities in the last mile/kilometer of communications networks, while integrating functions and capabilities that help reduce the capital and operating costs of delivering such services. The LoopStar product family provides our customers with a flexible and economical optical transport platform for both legacy voice and next-generation protocols. The LoopStar portfolio provides last mile/kilometer and inter-office data transport to support a wide array of business service offerings at a variety of different transmission rates.

Professional Services

Professional Services, which we offer in North America and Europe, consist of systems integration services for broadband, multiservice communications over wireline, wireless, cable and enterprise networks. Professional Services are used to plan, deploy and maintain communications networks that deliver Internet, data, video and voice services to consumers and businesses.

Our Professional Services support both the multi-vendor and multi-service delivery requirements of our customers. These services support customers throughout the technology life-cycle, from network design, build-out, turn-up and testing to ongoing maintenance and training, and are utilized by our customers in creating and maintaining intra-office, inter-office or coast-to-coast networks.

The provision of such services also allows us to sell more of our hardware products as users of our Professional Services often have unfulfilled product needs related to their services projects. Our Professional Services thereby compliment our hardware business.

Sales and Marketing

Our products and services are used by customers in three primary markets:

the public communications network market worldwide, which includes companies such as Verizon, BellSouth, AT&T, Qwest, DeutscheTelecom and BellCanada, other local telephone companies, long-distance carriers, wireless service providers, cable television operators and broadcasters;

the private and governmental markets worldwide, which include business customers and governmental agencies that own and operate their own Internet, data, video and voice networks for internal use; and

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other communications equipment vendors, who incorporate our products into products and systems that they in turn sell into the two above listed markets.

Our customer base is relatively concentrated, with our top ten telecommunication customers accounting for 44.0%, 38.5% and 38.5% of our net sales in fiscal 2006, 2005 and 2004, respectively. Our largest customer, Verizon, accounted for 16.0%, 12.3% and 11.7%, of our net sales in fiscal 2006, 2005 and 2004, respectively. The recently completed merger of AT&T and BellSouth has created another large customer for us. In fiscal 2006 AT&T, BellSouth and Cingular (who are now combined in the merger) collectively represented approximately 14.9% of our net sales.

Outside the United States, we market our products to telephone operating companies, owners and operators of private enterprise networks, cable television operators and wireless service providers for networks. Our non-U.S. net sales accounted for approximately 41.4%, 43.3% and 36.3% of our net sales in fiscal 2006, 2005 and 2004, respectively. Our EMEA region (Europe, Middle East and Africa) accounted for the largest percentage of sales outside of North America. EMEA region sales were 25.6%, 26.7% and 19.9% of our net sales in fiscal 2006, 2005, and 2004, respectively.

Our direct sales force completes a majority of our sales. We maintain sales offices throughout the world. In the United States, our products are sold directly by our sales personnel as well as through value-added resellers, distributors and manufacturers representatives. Outside the United States, our products are sold directly by our field sales personnel and by independent sales representatives and distributors, as well as through other public and private network providers that distribute products. Nearly all of our sales to enterprise networks outside the United States are conducted through third-party distributors.

We maintain a customer service group that supports our field sales personnel and our third-party distributors. The customer service group is responsible for application engineering, customer training, entering orders and supplying delivery status information. We also have a field service-engineering group that provides on-site service to customers.

Research and Development

We believe that our future success depends, in part, on our ability to adapt to the rapidly changing communications environment so we can maintain our significant expertise in core technologies and continue to anticipate and meet our customers needs. We continually review and evaluate technological changes affecting the communications market and invest in applications-based research and development. The focus of our research and development activities will change over time based on particular customer needs and industry trends as well as our decisions regarding those areas in which we believe we are most likely to achieve success. As part of our long-term strategy, we intend to continue an ongoing program of new product development that combines internal development efforts with acquisitions and strategic alliances relating to new products and technologies from sources outside ADC. Our expenses for internal research and development activities were \$72.4 million, \$71.6 million and \$59.1 million, in fiscal 2006, 2005 and 2004, respectively. These amounts represented 5.6%, 6.3% and 8.1%, of our total revenues in each of those respective fiscal years. These percentages have decreased over time as we have become more focused on certain initiatives and as our operations became more concentrated in infrastructure products.

During fiscal 2006, our research and development activities were directed primarily at the following areas:

- connectivity products for FTTX initiatives;

- high-performance structured cables, jacks, plugs, jumpers, frames and panels to enable the use of increasingly higher-performance IP network protocols within private networks;

connectivity products that enable the use of IP network protocols within the public communications network, which is used by our customers to more effectively deploy data services over their existing voice-based networks; and

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digital interfaces for wireless networks that will enable software-based products to interact with the physical elements of these networks.

New product development often requires long-term forecasting of market trends, the development and implementation of new processes and technologies and substantial capital commitment. Due to the uncertainties inherent in each of these elements, there can be no assurance that any new products we develop will achieve market acceptance or be profitable. In addition, as we balance product development with our efforts to achieve sustained profitability, we are more selective in our research and development in order to focus on projects that we believe directly advance our strategic aims and have a higher probability to return our investment.

Competition

Currently, our primary competitors include:

For Broadband Infrastructure and Access products: 3M, ADTRAN, Andrew, CommScope, Corning, Furukawa, Nexans, Panduit, Powerwave, Schmitt, Telect, and Tyco.

For Professional Services: Alcoa, EMBARQ Logistics (formerly Sprint North Supply), Fujikawa, GAH Group, NEC, SAG, Siemens, Telemon, and Vivento Technical Services.

Competition in the communications equipment industry is intense. Many of our competitors have more extensive engineering, manufacturing, marketing, financial and personnel resources than us. In addition, rapid technological developments within the communications industry result in frequent changes among our group of competitors.

We believe that our success in competing with other communications product manufacturers depends primarily on the following factors:

- our long-term customer relationships;
- our brand recognition and reputation as a financially-sound, long-term supplier to our customers;
- our engineering (research and development), manufacturing, sales and marketing skills;
- the price, quality and reliability of our products;
- our delivery and service capabilities; and
- our ability to contain costs.

We experience significant and increasing pricing pressures from competitors as well as from our customers. Price likely will continue to be a major factor in the markets in which we compete, and we believe our potential ability to offset any downward pressure on prices primarily will be driven by the above listed success factors.

We believe that technological change, the increasing addition of Internet, data, video and voice services to integrated broadband, multimedia networks, ongoing regulatory changes and industry consolidation will continue to cause rapid evolution in the competitive environment of the communications equipment market. At this time, it is difficult to predict the full scope and nature of these changes. There can be no assurance that we will be able to compete successfully with existing or new competitors. Competitive pressures may materially and adversely affect our

business, operating results or financial condition.

Manufacturing and Suppliers

We manufacture a variety of products that are fabricated, assembled and tested primarily in our own facilities around the world. In an effort to reduce costs and improve customer service, we generally attempt to manufacture our products in the region of the world where they will be deployed. Our strategy to reduce costs includes looking for opportunities to locate manufacturing in low-cost areas as competitive pressures require. We also look for ways in which we can respond quickly to changes in market factors in our manufacturing

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and supply chain. Like many companies in our industry, we are focusing on the Asia Pacific region as a potential place to locate manufacturing facilities. Our global sourcing team uses vendors from around the world to procure key components and raw materials at advantageous prices and lead times. The manufacturing process for our electronic products consists primarily of assembly and testing of electronic systems built from fabricated parts, printed circuit boards and electronic components. The manufacturing process for our connectivity products is integrated vertically and consists primarily of the fabrication of jacks, plugs, cables and other basic components from raw materials as well as the assembly of components and the testing of products. Our sheet metal, plastic molding, stamping and machining capabilities permit us to configure components to customer specifications, provide competitive lead times and control production costs. We also utilize several outsourced manufacturing companies to manufacture, assemble and test certain of our products. We estimate that products manufactured by these companies accounted for approximately 20% of our net sales for the Broadband Infrastructure and Access segment in fiscal 2006.

We purchase raw materials and component parts from many suppliers. These purchases consist primarily of copper wire, optical fiber, steel, brass, nickel-steel alloys, gold, plastics, printed circuit boards, solid state components, discrete electronic components and similar items. Although many of these items are single-sourced, we have not experienced any significant difficulties to date in obtaining adequate quantities. In fiscal 2006 we experienced an increase in the prices for raw materials used to make our products. We mitigated some of these increases through purchasing power due to the scale of our operations as well as sharing some of the cost increases with our customers. Circumstances relating to the availability and pricing of materials could change and our ability to mitigate price increases or to take advantage of price decreases will depend upon a variety of factors such as our purchasing power and the purchasing power of our customers. We cannot guaranty that sufficient quantities or quality of raw materials and component parts will be as readily available in the future, that they will be available at favorable prices or how the prices at which we sell our products will be impacted by the prices at which we obtain raw materials.

Proprietary Rights

We own a portfolio of U.S. and foreign patents relating to our products. These patents, in the aggregate, constitute a valuable asset. We do not believe, however, that our business is dependent upon any single patent or any particular group of related patents.

We registered the initials ADC as well as the word KRONE, each alone and in conjunction with specific designs, as trademarks in the United States and various foreign countries. U.S. trademark registrations generally are for a term of ten years, and are renewable every ten years as long as the trademark is used in the regular course of trade.

Seasonality

We expect sales in our first fiscal quarter will be lower than in other quarters. This primarily is because of the holiday season extending from Thanksgiving to New Year's in that quarter, and the development of annual capital spending budgets by many of our customers during that time frame. In addition, in both fiscal 2005 and fiscal 2006 our sales in the fourth quarter were sequentially lower than third quarter sales in part due to customer inventory build-ups.

The working days by quarter in fiscal 2007 are 63 days in the first quarter, 65 days in the second quarter, 63 days in the third quarter and 62 days in the fourth quarter. The working days by quarter in fiscal 2006 were 59 days in the first quarter, 65 days in the second quarter, 62 days in the third quarter and 66 days in the fourth quarter.

Employees

As of October 31, 2006, we employed approximately 8,600 people worldwide, which is an increase of approximately 400 employees since October 31, 2005. The increase primarily represents employees hired for our manufacturing

operations.

Table of Contents**Executive Officers of the Registrant**

Our executive officers are:

Name	Office	Officer Since	Age
Robert E. Switz	President and Chief Executive Officer	1994	60
Gokul V. Hemmady	Vice President, Chief Financial Officer	1998	46
Hilton M. Nicholson	Vice President, President, Active Infrastructure Business Unit	2006	48
Patrick D. O'Brien	Vice President, President, Global Connectivity Solutions Business Unit	2002	43
Richard B. Parran, Jr	Vice President, President, Professional Services Business Unit	2006	50
James G. Mathews	Vice President and Controller	2005	55
Laura N. Owen	Vice President, Human Resources	1999	50
Jeffrey D. Pflaum	Vice President, General Counsel and Secretary	1999	47

Mr. Switz joined ADC in January 1994 and served as ADC's Chief Financial Officer from then until August 2003, when he was named Chief Executive Officer. From 1988 to 1994, Mr. Switz was employed by Burr-Brown Corporation, a manufacturer of precision micro-electronics, most recently as Vice President, Chief Financial Officer and Director, Ventures and Systems Business.

Mr. Hemmady joined ADC as Assistant Treasurer in October 1997. Mr. Hemmady served as ADC's Vice President and Treasurer from June 1998 until August 2003. From May 2002 until August 2003, he also served as our Controller. Mr. Hemmady was named Chief Financial Officer in August 2003. Prior to joining ADC, Mr. Hemmady was employed by U S WEST International, a communications service provider, where he served as Director of International Finance from January 1996 to September 1997.

Mr. Nicholson joined ADC in March 2006 as Vice President, President of Active Infrastructure Business Unit. Mr. Nicholson was President of our IP Cable Business Unit from July 2002 to June 2004 when we completed the divestiture of this business. Prior to rejoining ADC, he was the Senior Vice President of Product Operations at 3com from 2004 to 2006. He previously was employed by Lucent Technologies from 1995 to 2002 where he most recently served as Vice President and General Manager, Core Switching and Routing Divisions.

Mr. O'Brien joined ADC in 1993 as a product manager for the company's industry-leading DSX products and, during the following eight years, he held a variety of positions of increasing responsibility in the product management area, including Vice President and General Manager of copper and fiber connectivity products. He was named President of ADC's Global Connectivity Solutions Business Unit in September 2004. From May 2004 through August 2004, Mr. O'Brien served as President and Regional Director of the Americas Region for ADC. Mr. O'Brien also served as President of our Copper and Fiber Connectivity Business Unit from October 2002 to May 2004. Prior to joining ADC, Mr. O'Brien was employed by Contel Telephone for six years in a network planning capacity.

Mr. Parran joined ADC in November 1995 and served in our business development group, most recently holding the position of Vice President, Business Development from November 2001 to November 2005. In November of 2005 Mr. Parran became the interim leader of our Professional Services Business Unit, and in March 2006 he was appointed Vice President, President, Professional Services Business Unit. Prior to joining ADC, he served as a general

manager of the business services telecommunications business for Paragon Cable and spent 10 years with Centel,