ADC TELECOMMUNICATIONS INC
Form 10-Q
June 08, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 April 29, 2005

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 |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes |X| No |_|

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: 116,006,949 shares as of June 6, 2005

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED
(In millions)

	April 29, 2005	October 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 100.3	$ 67.0
Available-for-sale securities	448.4	434.6
Accounts receivable, net of allowance of $12.3 and $15.9, respectively	191.9	158.0
Unbilled revenue	55.8	36.5
Inventories, net of reserve of $37.6 and $42.0, respectively	123.9	97.8
Prepaid and other current assets	34.2	25.1
Assets of discontinued operations		16.6
Total current assets	954.5	835.6
Property and equipment, net of accumulated depreciation of $333.2 and $316.0, respectively	219.0	233.0
Restricted cash	19.1	21.9
Goodwill	175.8	180.1
Intangibles, net of accumulated amortization of $20.9 and $13.9, respectively	87.9	93.0
Available-for-sale securities	18.3	26.8
Other assets	24.6	37.7
Total assets	$ 1,499.2	$ 1,428.1
LIABILITIES AND SHAREOWNERS INVESTMENT		
Current Liabilities:		
Accounts payable	$ 86.5	$ 72.8
Accrued compensation and benefits	58.7	65.9
Other accrued liabilities	79.2	81.7
Income taxes payable	25.9	27.6
Restructuring accrual	30.0	38.4
Liabilities of discontinued operations		15.6
Total current liabilities	280.3	302.0

	April 29, 2005	October 31, 2004
Pension obligations and other long-term liabilities	69.9	66.8
Long-term notes payable	400.0	400.0
Total liabilities	750.2	768.8
Shareowners Investment:		
(115.8 and 115.7 shares outstanding, respectively)	749.0	659.3
Total liabilities and shareowners investment	$ 1,499.2	$ 1,428.1

See accompanying notes to unaudited condensed consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED
(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Net Sales:				
Product	$264.5	$128.5	$464.4	$239.9
Service	51.2	25.1	94.7	50.4
Total Net Sales	315.7	153.6	559.1	290.3
Cost of Sales:				
Product	154.0	67.8	276.9	126.7
Service	44.7	23.2	83.6	47.1
Total Cost of Sales	198.7	91.0	360.5	173.8
Gross Profit	117.0	62.6	198.6	116.5
Operating Expenses:				
Research and development	18.2	14.3	33.4	26.7
Selling and administration	63.6	39.9	124.6	71.2
Impairment charges	0.6	1.5	0.6	1.5
Restructuring charges	3.2	10.1	6.4	11.9
Total Operating Expenses	85.6	65.8	165.0	111.3
Operating Income (Loss)	31.4	(3.2)	33.6	5.2
Other Income, Net	5.4	0.6	17.8	8.4
Income (Loss) Before Income Taxes	36.8	(2.6)	51.4	13.6
Provision for Income Taxes	2.3	0.5	3.3	0.4
Income (Loss) from Continuing Operations	34.5	(3.1)	48.1	13.2
Discontinued Operations, Net of Tax:				

	Three Months Ended		Six Months Ended	
(Loss) Income from discontinued operations	(0.2)	(24.8)	2.5	(39.9)
(Loss) Gain on sale of subsidiaries	(0.9)	1.3	35.3	(2.3)
	(1.1)	(23.5)	37.8	(42.2)
Net Income (Loss)	$ 33.4	$ (26.6)	$ 85.9	$ (29.0)
Average Common Shares Outstanding (Basic)	115.7	115.4	115.7	115.4
Average Common Shares Outstanding (Diluted)	130.5	115.4	130.5	116.1
Basic Earnings (Loss) Per Share:				
Continuing operations	$ 0.30	$ (0.03)	$ 0.42	$ 0.11
Discontinued operations	$ (0.01)	$ (0.20)	$ 0.32	$ (0.36)
Basic income (loss) per share	$ 0.29	$ (0.23)	$ 0.74	$ (0.25)
Diluted Earnings (Loss) Per Share:				
Continuing operations	$ 0.28	$ (0.03)	$ 0.40	$ 0.11
Discontinued operations	$ (0.01)	$ (0.20)	$ 0.29	$ (0.36)
Diluted income (loss) per share	$ 0.27	$ (0.23)	$ 0.69	$ (0.25)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	April 29, 2005	**April 30, 2004**
Operating Activities:		
Net income from continuing operations	$ 48.1	$ 13.2
Adjustments to reconcile net income from continuing operations to net cash provided by (used by) operating activities from continuing operations:		
Impairments	0.6	1.5
Depreciation and amortization	27.4	18.9
Change in bad debt reserves	(2.1)	(1.4)
Change in inventory reserves	0.9	(1.1)
Change in warranty reserves	(1.4)	
Non-cash stock compensation	1.5	0.7
Gain on sale of investments		(4.4)
Gain on sale of business		3.4
Gain on sale of property and equipment	(4.3)	(0.3)
Other, net	1.8	(0.8)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable and unbilled revenues	(48.5)	1.8
Inventories	(23.0)	(12.5)

	Six Months Ended	
Prepaid and other assets	(9.7)	(7.4)
Accounts payable	10.7	4.7
Accrued liabilities	(20.5)	20.2
Total cash (used by) provided by operating activities from continuing operations	(18.5)	36.5
Total cash (used by) provided by operating activities from discontinued operations	1.2	(39.8)
Total cash (used by) provided by operating activities	(17.3)	(3.3)
Investing Activities:		
Divestitures, net of cash disposed	33.6	3.7
Property and equipment additions	(8.8)	(6.6)
Proceeds from sale of note receivable	9.0	
Proceeds from disposal of property and equipment	16.7	5.6
Change in restricted cash	2.8	(2.4)
Change in available-for-sale securities	(5.7)	(213.3)
Total cash provided by (used by) investing activities	47.6	(213.0)
Financing Activities:		
Repayments of debt		(8.3)
Common stock issued	2.4	4.6
Total cash provided by (used by) financing activities	2.4	(3.7)
Effect of Exchange Rate Changes on Cash	0.6	(0.1)
Increase (Decrease) in Cash and Cash Equivalents	33.3	(220.1)
Cash and Cash Equivalents, beginning of period	67.0	288.8
Cash and Cash Equivalents, end of period	$ 100.3	$ 68.7

See accompanying notes to unaudited condensed consolidated financial statements.

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

Note 1 Basis of Presentation:

These interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The interim information furnished in this report reflects all normal recurring adjustments, which are necessary, in the opinion of our management, for a fair statement of the results for the interim periods. The operating results for the three and six month periods ended April 29, 2005 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 filed on Form 10-K for the fiscal year ended October 31, 2004.

Fiscal Year

Our quarters end on the last Friday of the calendar month for the respective quarter end. Our fiscal year end is October 31. As a result, our fourth quarter may have greater or fewer days than previous quarters in a fiscal year.

Reverse Stock Split

On April 18, 2005, we announced a one-for-seven reverse split of our common stock. The effective date of the reverse split was May 10, 2005. All share, share equivalent and per share amounts have been adjusted to reflect the reverse stock split as if it had occurred on November 1, 2003.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting and Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and amends SFAS No. 95, Statement of Cash Flows . SFAS 123R requires companies to recognize in their income statements the grant-date fair value of stock options and other equity-based compensation issued to employees. On April 14, 2005, the SEC issued a new rule that amends the required effective dates for SFAS 123R. As a result of the SEC amendment, we will adopt SFAS 123R in the first quarter of fiscal 2006. The SEC amendment does not change the accounting required under SFAS 123R.

We will implement SFAS 123R under the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified or settled after the date of adoption will be measured and accounted for in accordance with SFAS 123R. Compensation cost for awards granted prior to, but not vested as of, the date we adopt SFAS 123R would be based on the grant date fair value and attributes originally used to value those awards. We expect that the adoption of this standard will reduce fiscal 2006 net income by approximately $7.6 million. This estimate is based on the number of options currently outstanding and exercisable and could change based on the number of options granted or forfeited in fiscal 2005 and fiscal 2006. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as cash flow from financing activities, rather than as cash flow from operating activities as required under current accounting rules or practices. We expect that the adoption of this standard will not initially impact our operating or financing cash flows due to our current tax situation.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (SFAS 151), which requires that abnormal amounts of idle capacity and spoilage costs are to be excluded from the cost of inventory and expensed when incurred. The provisions of SFAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005, which will be our fiscal year beginning November 1, 2005. We expect the adoption of this standard will have minimal impact on our financial statements.

Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in our most recent Annual Report filed on Form 10-K for the fiscal year ended October 31, 2004. There were no significant changes to our critical accounting policies during the three and six months ended April 29, 2005.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on reported earnings. Auction rate securities, which previously had been classified as cash and cash equivalents, are now classified as current available-for-sale securities for all periods presented. This reclassification had no impact on current assets, working capital, or any amounts reported on the statement of operations. Changes in available-for-sale securities are shown in the investing section of the statement of cash flows. As of April 29, 2005, October 31, 2004, and April 30, 2004, we held auction rate securities with a value of $429.7 million, $427.3 million and $661.5 million, respectively.

Note 2 Stock-Based Compensation:

We recognize and measure our stock compensation by the intrinsic value method in accordance with Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees , and related interpretations. Compensation cost for employee stock options is measured as the excess, if any, of the quoted market price of our common stock at the date of the grant over the amount that the employee is required to pay for the stock. No compensation expense was recognized for options issued in the first six months of fiscal 2005 and fiscal 2004 because all stock options were issued with an exercise price equal to the fair market value of our common stock on the date of grant. Stock compensation is awarded to certain key employees in the form of stock options and restricted stock grants and, beginning on March 2, 2004, in the form of restricted stock units. The recipients of restricted stock grants and restricted stock units do not pay for the awards.

Compensation cost for restricted stock grants and restricted stock units is equal to the fair market value of the underlying shares on the date an award is made and is amortized over the projected remaining vesting period.

Under the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation , we must disclose, on a quarterly basis, how stock compensation expense would be computed under SFAS 123, using the fair value method. We estimated the fair value using the Black-Scholes option-pricing model. The following table summarizes what our operating results would have been if the fair value method of accounting for stock options had been utilized (in millions, except for per share amounts):

	Three Months Ended		Six Months Ended	
	April 29, 2005	**April 30, 2004**	**April 29, 2005**	**April 30, 2004**
Net income (loss) as reported	$33.4	$(26.6)	$ 85.9	$(29.0)
Plus: Stock-based employee compensation expense included in reported income (loss)	0.8	0.1	1.5	0.7
Less: Stock compensation expense fair value based method	(5.5)	(5.4)	(10.0)	(12.1)
Pro forma net income (loss)	$28.7	$(31.9)	$ 77.4	$(40.4)
Income (Loss) Per Share Basic and Diluted				
As reported Basic	$0.29	$(0.23)	$ 0.74	$(0.25)
As reported Diluted	$0.27	$(0.23)	$ 0.69	$(0.25)
Pro forma Basic	$0.25	$(0.28)	$ 0.67	$(0.35)
Pro forma Diluted	$0.24	$(0.28)	$ 0.62	$(0.35)

During the third quarter of fiscal 2003, we offered eligible employees the right to exchange certain of their employee stock options for a lesser number of new options to be granted six months and one day following the surrender of their existing options. The new options, which were granted on December 29, 2003, have an exercise price of $19.81 per share, which is equal to the average of the high and low trading price of our common stock on the grant date, as adjusted for our recent one-for-seven reverse stock split. These options vest over the two-year

period from the grant date. For purposes of the above tabular disclosure, the unrecognized compensation cost of the cancelled options and the incremental fair value of the replacement options are being amortized over a 31-month period, consisting of the 24-month vesting period for the replacement options and the six month and one day period between the cancellation of the surrendered options and the grant of the replacement options.

Note 3 Acquisition:

On May 18, 2004, we completed the acquisition of the KRONE group (KRONE), a global supplier of connectivity solutions and cabling products used in public access and enterprise networks, from GenTek, Inc. This acquisition has increased our network infrastructure business and expanded our presence in the international marketplace. The results of KRONE subsequent to May 18, 2004 are included in our results of operations.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of the acquisition (in millions):

	May 18, 2004
Current assets	$119.7
Intangible assets	78.1
Goodwill	175.9
Other long-term assets	81.2
Total assets acquired	454.9
Current liabilities	79.9
Long-term liabilities	64.1

	May 18, 2004
Total liabilities assumed	144.0
Net assets acquired	310.9
Less cash acquired	16.5
Net cash paid	$294.4

Unaudited pro forma consolidated results of continuing operations for the three and six months ended April 30, 2004, as though the acquisition of KRONE had taken place at the beginning of such period, are as follows (in millions, except per share data):

	Three Months Ended April 30, 2004	Six Months Ended April 30, 2004
Net sales	$ 243.6	$460.6
Income from continuing operations (1)	$ 4.0	$ 14.8
Net income per share basic and diluted	$ 0.03	$ 0.13

(1) Includes restructuring and impairment charges of $11.6 million and $13.4 million for ADC s historical stand-alone business and $0.1 million and $2.3 million for the KRONE s historical stand-alone business for the three and six months ended April 30, 2004, respectively. See Note 13 for a discussion of the nature of these charges.

The unaudited pro forma results of operations are for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the period presented or the results which may occur in the future.

Note 4 Discontinued Operations:

During fiscal 2004, we sold our BroadAccess40 business, the business related to our Cuda cable modem termination system product line and related FastFlow Broadband Provisioning Manager software, and the business related to our Singl.eView product line. We also entered into an agreement to sell the business related to our Metrica service assurance software group. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , these businesses were classified as discontinued operations in fiscal 2004 and the financial results are reported separately as discontinued operations for all periods presented.

BroadAccess40

During the first quarter of fiscal 2004, we entered into an agreement to sell our BroadAccess40 business, which was included in our Broadband Infrastructure and Access segment. We classified this business as a discontinued operation beginning in the first quarter of fiscal 2004. This transaction closed on February 24, 2004. We recorded a loss on the sale of the business of $3.6 million based on the value of the business assets and liabilities as of January 31, 2004. Subsequent to January 31, 2004, adjustments of $3.0 million were made to increase the previous loss recorded.

The purchasers of the BroadAccess40 business acquired all of the stock of our subsidiary that operated this business and assumed substantially all liabilities associated with this business, with the exception of a $7.5 million note payable that was paid in full by us prior to the closing of the transaction. The purchasers issued a promissory note to us for $3.8 million that was paid to us in full in May of 2005.

Cuda/FastFlow

During the third quarter of fiscal 2004, we entered into an agreement to sell the business related to our Cuda cable modem termination system product line and related FastFlow Broadband Provisioning Manager software, to BigBand Networks, Inc. (BigBand). This transaction closed on June 29, 2004. The business had been included in our Broadband Infrastructure and Access segment. As consideration for this sale, we were issued a non-voting minority interest in BigBand, which we accounted for under the cost method and has a nominal value. We also provided BigBand with a non-revolving credit facility of up to $12.0 million with a term of three years. As of April 29, 2005, $7.0 million was drawn on the credit facility. We classified this business as a discontinued operation beginning in the third quarter of fiscal 2004, and recorded a loss on sale of $2.6 million. In the fourth quarter, adjustments of $2.3 million were made to increase the total loss to $4.9 million.

Singl.eView

During the third quarter of fiscal 2004, we entered into an agreement to sell the business related to our Singl.eView product line to Intec Telecom Systems PLC (Intec) for a cash purchase price of $74.5 million, subject to purchase price adjustments. The transaction closed on August 27, 2004. This business had been included in our Professional Services segment. We also agreed to provide Intec with a $6.0 million non-revolving credit facility with a term of 18 months. As of April 29, 2005, $4.0 million was drawn on the credit facility. We classified this business as a discontinued operation in the third quarter of fiscal 2004. In the fourth quarter of fiscal 2004, we recognized a gain on sale of $61.7 million. In our first quarter of fiscal 2005, we recognized an income tax benefit of $3.1 million relating to resolution of certain income tax contingencies.

Metrica

During the fourth quarter of fiscal 2004, we entered into an agreement to sell the business related to our Metrica service assurance software group to Vallent Corporation (formerly known as WatchMark Corporation) (Vallent) for a cash purchase price of $35.0 million, subject to purchase price adjustments, and a $3.9 million equity interest in Vallent. The transaction closed on November 19, 2004. The equity interest constitutes less then a five percent ownership in Vallent. This business had been included in our Professional Services segment. We classified this business as a discontinued operation in the fourth quarter of fiscal 2004. In the first quarter of fiscal 2005, we recognized a gain on sale of $36.0 million.

In the second quarter of fiscal 2005, we recorded an adjustment to reduce the gain by $0.9 million due to subsequent adjustments to the working capital balances used to determine the purchase price. There may be additional future losses to record based on the resolution of certain contingencies related to the sale. However, we are not able to estimate the amount of any such losses at this time.

The financial results of our BroadAccess40, Cuda/FastFlow, Singl.eview and Metrica businesses included in discontinued operations are as follows (in millions):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Net sales	$	$ 28.5	$ 0.9	$ 65.3
(Loss) Income from discontinued operations	$ (0.2)	$ (24.8)	$ 2.5	$ (39.9)
(Loss) Gain on sale of subsidiaries	(0.9)	1.3	35.3	(2.3)
(Loss) Income from discontinued operations, net of tax	$ (1.1)	$ (23.5)	$ 37.8	$ (42.2)

Note 5 Net Income (Loss) from Continuing Operations Per Share:

The following table presents a reconciliation of the numerators and denominators of basic and diluted income (loss) per share from continuing operations (in millions, except for per share amounts):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Numerator:				
Net income (loss) from continuing operations	$ 34.5	$ (3.1)	$ 48.1	$ 13.2

	Three Months Ended		Six Months Ended	
Interest expense for convertible notes	2.0		3.9	
Net income (loss) from continuing operations diluted	$ 36.5	$ (3.1)	$ 52.0	$ 13.2
Denominator:				
Weighted average common shares outstanding basic	115.7	115.4	115.7	115.4
Convertible bonds converted to common stock	14.2		14.2	
Employee options and other	0.6		0.6	0.7
Weighted average common shares outstanding diluted	130.5	115.4	130.5	116.1
Basic income (loss) per share from continuing operations	$ 0.30	$ (0.03)	$ 0.42	$ 0.11
Diluted income (loss) per share from continuing operations	$ 0.28	$ (0.03)	$ 0.40	$ 0.11

Excluded from the dilutive securities described above are employee stock options to acquire 7.9 million and 6.3 million shares for the three months ended April 29, 2005 and April 30, 2004, respectively and 5.9 million and 6.3 million shares for the six months ended April 29, 2005 and April 30, 2004, respectively. These exclusions were made because the exercise prices of these options were greater than the average market price of the common stock for the period or because of a net loss in the period, which results in these securities having an anti-dilutive effect.

Warrants to acquire 14.2 million shares issued in connection with our convertible notes were excluded from the dilutive securities described above for the three and six months ended April 29, 2005 and April 30, 2004, because the exercise price of these warrants was greater than the average market price of the common stock.

All shares reserved for issuance upon conversion of our convertible notes were excluded for the three and six months ended April 30, 2004 because of their anti-dilutive effect. However, these shares were included for the three and six months ended April 29, 2005. Upon achieving positive net income in a reporting period, our convertible notes require us to use the if-converted method for computing diluted earnings per share with respect to the shares reserved for issuance upon conversion of the notes. Under this method, we will add back the net-of-tax interest expense on the convertible notes to net income and then divide this amount by outstanding shares, including all 14.2 million shares that could be issued upon conversion of the notes. If this calculation results in further dilution of the earnings per share, our diluted earnings per share will include all 14.2 million shares of common stock reserved for issuance upon conversion of our convertible notes. If this calculation is anti-dilutive, the net-of-tax interest on the convertible notes will not be added back and the 14.2 million shares of common stock reserved for issuance upon conversion of our convertible notes will not be included.

Note 6 Inventories:

Inventories consist of the following (in millions):

	April 29, 2005	October 31, 2004
Purchased materials and manufactured products	$ 150.3	$ 132.1
Work-in-process	11.2	7.7
Less: Inventory reserve	(37.6)	(42.0)
Total inventories, net	$ 123.9	$ 97.8

Note 7 Property & Equipment:

Property & equipment consists of the following (in millions):

	April 29, 2005	October 31, 2004
Land and buildings	$ 114.1	$ 135.7
Machinery and equipment	397.3	364.1
Furniture and fixtures	32.6	38.2
Less: Accumulated depreciation	(333.2)	(316.0)
Total	210.8	222.0
Construction in progress	8.2	11.0
Total property & equipment, net	$ 219.0	$ 233.0

Note 8 Intangible Assets:

The following table represents intangible assets by category and accumulated amortization as of April 29, 2005 (in millions):

	Gross Carrying Amounts	Accumulated Amortization	Net	Estimated Life Range (in years)
Technology	$ 28.9	$ 4.7	$ 24.2	5-7
Trade name/trademarks	25.3	1.3	24.0	5-20
Distributor network	10.1	1.0	9.1	10
Customer list	4.5	1.6	2.9	2
Patents	21.6	9.2	12.4	3-7
Other	18.4	3.1	15.3	1-13
	$ 108.8	$ 20.9	$ 87.9	

Amortization expense was $3.4 million and $0.6 million for the three months ended April 29, 2005 and April 30, 2004, respectively, and $6.9 million and $1.3 million for the six months ended April 29, 2005 and April 30, 2004, respectively. Included in amortization expense is $2.6 million and $5.3 million of acquired intangible amortization for the three and six months ended April 29, 2005. The estimated amortization expense for identified intangible assets is as follows for the periods indicated (in millions):

Remaining 2005	$6.9
2006	13.6
2007	11.4
2008	11.5
2009	9.2
2010	6.4
Thereafter	28.9
Total	$87.9

Note 9 Income Taxes:

A deferred tax asset represents future tax benefits to be received when certain expenses and losses previously recognized in U.S. income statements become deductible under applicable income tax laws. The realization of a deferred tax asset is dependent on future taxable income against which these deductions can be applied. SFAS No. 109, Accounting for Income Taxes, requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. As a result of the cumulative losses we incurred in recent years, we previously concluded that a nearly full valuation allowance should be recorded. We expect to maintain a nearly full valuation allowance on our deferred tax assets until we can sustain a level of profitability that demonstrates our ability to utilize these assets. We will not record significant income tax expense or benefits for pre-tax income (loss) until either our deferred tax assets are fully utilized to reduce future income tax liabilities or the value of our deferred tax assets are restored on the balance sheet. Substantially, all of our income tax provision for the three and six months ended April 30, 2005 is due to foreign income taxes.

As of April 29, 2005, we had $1,050.4 million of net deferred tax assets that have a nearly full valuation allowance and therefore such net deferred tax assets are reflected on the Condensed Consolidated Balance Sheet in Other Assets at an insignificant amount. Most of our deferred tax assets are related to U.S. income taxes and are not expected to expire until after fiscal 2021 with the exception of $226.7 million relating to capital loss carryovers which can only be utilized against realized capital gains and which expire in fiscal 2009.

Note 10 Comprehensive Income (Loss):

Comprehensive income (loss) has no impact on our net income (loss) but is reflected in our balance sheet through adjustments to shareowners investment. The components of comprehensive income (loss) are as follows (in millions):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Net income (loss)	$33.4	$(26.6)	$85.9	$(29.0)
Change in cumulative translation adjustments	0.8	(0.8)	0.6	9.9
Reclassification adjustment for realized losses on securities classified as available for sale	(0.2)		(0.1)	(4.1)
Unrealized loss from securities classified as available for sale	(0.1)	(0.3)	(0.3)	(0.5)
Total comprehensive income (loss)	$33.9	$(27.7)	$86.1	$(23.7)

Note 11 Pension Benefits:

With our acquisition of KRONE in fiscal 2004, we assumed certain pension obligations of KRONE related to its German workforce. Prior to the KRONE acquisition, we did not have any defined benefit plans. The KRONE pension plan is an unfunded general obligation of one of our German subsidiaries (which is a common arrangement for German pension plans). The plan was closed to employees hired after 1994 and thus covers only current retirees and those hired prior to 1995. Pension payments will be made to eligible individuals upon reaching eligible retirement age, and the cash payments are expected to roughly equal the net periodic benefit cost.

Components of net periodic benefit cost are as follows (in millions):

	Three Months Ended April 29, 2005	Six Months Ended April 29, 2005
Service cost	$ 0.2	$ 0.3
Interest cost	0.7	1.5
Net period benefit cost	$ 0.9	$ 1.8

Note 12 Segment and Geographic Information:

Segment Information

We have two reportable segments: the Broadband Infrastructure and Access segment and the Professional Services segment.

Broadband Infrastructure and Access products consist of:

Connectivity systems and components that provide the infrastructure to wireline, wireless, cable, broadcast and enterprise networks to connect high-speed Internet, data, video and voice services to the network 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.

Professional Services (previously known as Integrated Solutions) provide 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 high-speed Internet, data, video and voice services.

Intersegment sales of $18.0 million and $24.2 million and operating income of $12.1 million and $16.1 million are eliminated from Professional Services for the three and six months ended April 29, 2005, respectively. In previous years, eliminations were included in our Broadband Infrastructure and Access segment. The prior year presentation has been reclassified to conform to the current year presentation. Additionally, allocations of corporate costs are completed at a regional level instead of at the operating segment level. As such, while our senior management does not view corporate cost allocations at the operating segment level, we believe allocating the costs to the operating segments on the basis of net sales is a more accurate representation of operating segment performance.

The following table sets forth net sales information for each of our functional operating segments described above (in millions):

	Three Months Ended		**Six Months Ended**	
	April 29, 2005	**April 30, 2004**	**April 29, 2005**	**April 30, 2004**
Infrastructure Products (Connectivity)	$212.0	$ 80.2	$375.8	$148.3
Access Products (Wireline and Wireless)	36.7	39.5	59.2	74.4
Broadband Infrastructure and Access	248.7	119.7	435.0	222.7
Professional Services	67.0	33.9	124.1	67.6
Total net sales	$315.7	$153.6	$559.1	$290.3

Detail for each of our two functional operating segments is summarized as follows (in millions):

	Broadband Infrastructure and Access	**Professional Services**	**Unallocated Items**	**Consolidated**
Three Months Ended April 29, 2005				
Net sales:				
Product	$248.7	$ 15.8	$	$ 264.5
Service		51.2		51.2
Total net sales	248.7	67.0		315.7
Restructuring and impairments	3.0	0.8		3.8
Operating income (loss)	37.4	(6.0)		31.4
Other income (loss), net	3.5	(0.2)	2.1	5.4
Income (loss) from continuing operations before income taxes	40.9	(6.2)	2.1	36.8
Assets	707.2	119.2	672.8	1,499.2

	Broadband Infrastructure and Access	Professional Services	Unallocated Items	Consolidated
Three Months Ended April 30, 2004				
Net sales:				
Product	$119.7	$ 8.8	$	$ 128.5
Service		25.1		25.1
Total net sales	119.7	33.9		153.6
Restructuring and impairments	9.0	2.6		11.6
Operating income (loss)	6.0	(9.2)		(3.2)
Other income (loss), net	0.7	(0.2)	0.1	0.6
Income from continuing operations before income taxes	6.7	(9.4)	0.1	(2.6)
Assets	193.5	160.8	896.3	1,250.6

	Broadband Infrastructure and Access	Professional Services	Unallocated Items	Consolidated
Six Months Ended April 29, 2005				
Net sales:				
Product	$435.0	$ 29.4	$	$ 464.4
Service		94.7		94.7
Total net sales	435.0	124.1		559.1
Restructuring and impairments	5.4	1.6		7.0
Operating income (loss)	44.3	(10.7)		33.6
Other income, net	5.2	0.5	12.1	17.8
Income (loss) from continuing operations before income taxes	49.5	(10.2)	12.1	51.4
Assets	707.2	119.2	672.8	1,499.2
Six Months Ended April 30, 2004				
Net sales:				
Product	$222.7	$ 17.2	$	$ 239.9
Service		50.4		50.4
Total net sales	222.7	67.6		290.3
Restructuring and impairments	8.9	3.1	1.4	13.4
Operating income (loss)	22.0	(12.6)	(4.2)	5.2
Other income, net	1.0	0.2	7.2	8.4
Income from continuing operations before income taxes	23.0	(12.4)	3.0	13.6
Assets	193.5	160.8	896.3	1,250.6

Geographic Information

The following table represents net sales by significant geographical territories (in millions):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Inside the United States	$174.7	$107.8	$293.9	$204.4
Outside the United States:				
Asia Pacific (China, Hong Kong, Korea, Australia, India, Japan and Southeast Asia)	24.9	5.4	46.5	9.6
EMEA (Europe (excluding Germany), Middle East and Africa)	51.0	24.4	95.9	46.7
Germany	45.5		86.1	
Americas (Canada, Central and South America)	19.6	16.0	36.7	29.6
Total	$315.7	$153.6	$559.1	$290.3

Note 13 Restructuring Charges:

During the three months ended April 29, 2005 and April 30, 2004, we continued our plan to improve operating performance by restructuring and streamlining our operations. As a result, we incurred restructuring charges associated with workforce reductions as well as the consolidation of excess facilities. The restructuring charges resulting from our actions by category of expenditures, adjusted to exclude those activities specifically related to discontinued operations, are as follows for the three and six months ended April 29, 2005 and April 30, 2004, (in millions):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Employee severance costs	$2.5	$ 0.1	$4.2	$ 2.2
Facilities consolidation and lease termination	0.7	10.0	2.2	9.7
Fixed asset write-downs	0.6	1.5	0.6	1.5
Total restructuring and impairment charges	$3.8	$11.6	$7.0	$13.4

Impairment Charges: We incurred impairment charges of $0.6 million for the three and six months ended April 29, 2005, respectively, related to property and equipment as a result of our intention to sell or shutdown non-strategic businesses (primarily our subsidiary, ADC Systems Integration UK Limited). For the three and six months ended April 30, 2004, we incurred $1.5 million of impairment charges related to a manufacturing facility that was previously included in assets held for sale.

Restructuring Charges: Restructuring charges relate principally to employee severance costs and facility consolidation costs resulting from the closure of facilities and other workforce reductions attributable to our efforts to reduce costs. During the three and six months ended April 29, 2005, approximately 36 and 75 employees were impacted by reductions in force, principally in our Broadband Infrastructure and Access segment. During the three and six months ended April 30, 2004, approximately 7 and 38 employees were impacted by reductions in force, principally in corporate functions.

Facility consolidation and lease termination costs represent lease termination and other costs associated with our decision to consolidate and close duplicative or excess manufacturing and office facilities. For the three and six months ended April 29, 2005, we incurred charges of $0.7 million and $2.2 million, respectively, primarily due to continued softening of real estate markets, resulting in lower sublease income. During the three and six months ended April 30, 2004, we incurred charges of $10.0 million and $9.7 million, respectively, due to lower sublease income.

The following table provides detail on the activity and our remaining restructuring accrual balance by category as of April 29, 2005 (in millions):

Type of Charge	Accrual October 31, 2004	Continuing Operations Net Additions	Cash Charges	Accrual April 29, 2005
Employee severance costs	$ 9.6	$4.2	$ 8.8	$ 5.0
Facilities consolidation	28.8	2.2	6.0	25.0
Total	$38.4	$6.4	$14.8	$30.0

We expect that substantially all of the remaining $5.0 million accrual relating to employee severance costs as of April 29, 2005, will be paid from unrestricted cash by the end of the second quarter of fiscal 2006. Of the $25.0 million to be paid for the consolidation of facilities, we expect that approximately $8.7 million will be paid from unrestricted cash through April 28, 2006, and that the balance will be paid from unrestricted cash over the respective lease terms of the facilities through 2015. Based on our intention to continue to consolidate and close duplicative or excess manufacturing operations in order to reduce our cost structure, we may incur additional restructuring charges (both cash and non-cash) in future periods. These restructuring charges may have a material effect on our operating results.

During the three and six months ended April 29, 2005, we sold one and three properties, respectively, previously classified as held for sale, for proceeds of $5.1 million and $8.1 million, respectively, and a net gain of $1.0 million and $1.5 million, respectively.

Note 14 Other Income, Net:

Other income, net consists of the following (in millions):

	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Interest income, net	$1.5	$ 1.5	$ 2.4	$ 2.3
Foreign exchange income (loss)	0.1	(0.7)	1.3	(1.9)
Gain on sale of note receivable			9.0	
Gain on sale of product lines		0.1	0.6	3.4
Gain on sale of investments				4.4
Gain (loss) on sale of fixed assets	3.8	(0.1)	4.3	0.3
Other		(0.2)	0.2	(0.1)
Total Other Income, Net	$5.4	$ 0.6	$17.8	$ 8.4

During the three months ended January 28, 2005, fully reserved notes receivable of $15.8 million were sold resulting in a gain on sale of $9.0 million.

Note 15 Commitments and Contingencies:

Vendor Financing: We have worked with customers and third-party financiers to finance projects by negotiating financing arrangements. As of April 29, 2005 and April 30, 2004, we had fully drawn commitments to extend credit of $1.7 million and $18.2 million for such arrangements, respectively. The decrease in vendor financing is due to the sale of a significant note receivable in the three months ended January 28, 2005. The commitments to extend credit are conditional agreements generally having fixed expiration or termination dates and specific interest rates, conditions and purposes. These commitments may expire without being drawn. We regularly review all outstanding commitments, and the results of these reviews are considered in assessing the overall risk for possible credit losses. At April 29, 2005, we have recorded $1.7 million in loss reserves in the event of non-performance related to these financing arrangements.

Legal Contingencies: On May 19, 2003, we were served with a lawsuit that was filed in the United States District Court for the District of Minnesota. The complaint names ADC and several of our current and former officers, employees and directors as defendants. After this lawsuit was served, we were served with two substantially similar lawsuits. All three of these lawsuits were consolidated into a single lawsuit captioned *In Re ADC Telecommunications, Inc. ERISA Litigation*. This lawsuit has been brought by individuals who seek to represent a class of participants in our Retirement Savings Plan who purchased our common stock as one of the investment alternatives under the Retirement Savings Plan from February 2000 to present. The lawsuit alleges a breach of fiduciary duties under the Employee Retirement Income Security Act. On February 2, 2004, we filed a motion to dismiss this lawsuit, which was denied by the court. This case is now in the discovery phase. The class has not yet been certified.

On June 6, 2005, the Eighth Circuit Court of Appeals upheld a decision of the United States District Court for the District of Minnesota to dismiss another class action suit brought against us. This lawsuit was brought by Wanda Kinermon in March 2003. The complaint named ADC, William J. Cadogan, our former Chairman and Chief Executive Officer, and Robert E. Switz, our current Chief Executive Officer and former Chief Financial Officer, as defendants. After this lawsuit was served, we were named as a defendant in 11 other substantially similar lawsuits. These shareowner lawsuits, including the suit brought by Ms. Kinermon, were consolidated into a single lawsuit captioned *In Re ADC Telecommunications, Inc. Securities Litigation*. The lawsuit purported to bring suit on behalf of a class of purchasers of our publicly traded securities from August 17, 2000 to March 28, 2001. The complaint alleged that we violated the securities laws by making false and misleading statements about our financial performance and business prospects during this period. It is unclear at this time whether Plaintiffs will attempt to appeal the decision of the Eighth Circuit Court of Appeals.

We are a party to various lawsuits, proceedings and claims arising in the ordinary course of business or otherwise. As of April 29, 2005, we had recorded $5.4 million in loss reserves in the event of such adverse outcomes in these matters. At this time we believe the ultimate resolution of these lawsuits, proceedings and claims will not have a material adverse impact on our business, results of operations or financial condition. However, litigation by its nature is uncertain, and we cannot predict the ultimate outcome of these matters, or any potential liability associated with the same, with any certainty.

Income Tax Contingencies: Our effective tax rate is impacted by reserve provisions and changes to reserves, which we consider appropriate. We establish reserves when, despite our belief that our tax returns reflect the proper treatment of all matters, we believe that the treatment of certain tax matters is likely to be challenged and that we may not ultimately be successful.

Significant judgment is required to evaluate and adjust the reserves in light of changing facts and circumstances, such as the progress of a tax audit. Further, a number of years may lapse before a particular matter for which we have established a reserve is audited and finally resolved. While it is difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies.

Other Contingencies: As a result of the divestitures discussed in Note 4, we may incur charges related to obligations retained based on the sale agreement. At this time, none of those obligations are reasonably estimable.

Change of Control: Our Board of Directors has approved the extension of certain employee benefits, including salary continuation to key employees, in the event of a change of control of ADC.

Note 16 Subsequent Events:

On May 9, 2005, we announced the acquisition of OpenCell, Corp. (OpenCell), a manufacturer of digital fiber-fed Distributed Antenna Systems and shared multi-access radio frequency network equipment, from Crown Castle International Corp. OpenCell employs approximately 32 people and is based in Nashua, New Hampshire. We acquired OpenCell for $7.25 million in cash, subject to purchase price adjustments.

On April 18, 2005, our Board of Directors committed to a plan that directs our management to explore the sale or shutdown the operations of our subsidiary, ADC Systems Integration UK Limited. On May 24, 2005, we completed the sale of this business to a company controlled by one of its former owners from whom we purchased the business in our fiscal year 2000.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading global provider of communications network infrastructure solutions and services. Our products and services connect 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, broadcast and enterprise networks. Our products also include network access devices such as high-bit-rate digital subscriber line and wireless coverage solutions. Finally, we provide professional services relating to the design, equipping and building of networks, which compliments our hardware business by planning, deploying and maintaining communications networks.

Our customers include local and long-distance telephone companies, private enterprise 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 (previously known as Integrated Solutions).

Our Broadband Infrastructure and Access business provides network infrastructure products for wireline, wireless, cable, broadcast and enterprise network applications for the communications industry. 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.

Marketplace Conditions

Our operating results for the three and six months ended April 29, 2005 reflected significant sales growth when compared with the same period in prior years, even when excluding sales of KRONE which we acquired in the third quarter of fiscal 2004. Our net sales and income for the three months ended April 29, 2005 showed significant growth across the majority of our product and service offerings. While we expect a continuation of year over year sales growth into the future, we are uncertain whether sequential or year over year sales growth will continue at the same rates we experienced in the three and six month periods ended April 29, 2005.

We believe that there is a general trend in our industry toward modest overall spending increases from the historical low levels experienced from fiscal 2001 through fiscal 2003. However, it is important to recognize that overall spending on communications equipment and services remains at significantly lower levels than existed prior to fiscal 2001 and that customers appear to be selective about areas where they are willing to increase spending. Specifically, we believe that spending increases by our customers are likely to be more pronounced in fiber-to-the-X (i.e., the deployment of fiber based networks closer to the ultimate consumer which is sometimes referred to as FTTX) initiatives as well as in the wireless and enterprise areas. We also believe that as capital spending budgets remain constrained, any increases in specific areas may cause service providers to decrease spending in other areas. For instance, we believe initiatives to spend on FTTX projects may be causing decreases in spending on other wireline initiatives. Ongoing consolidation among communications service providers may cause such companies

to defer spending while they focus on integrating combined businesses. To date, deferred spending caused by customer consolidation has not adversely impacted our sales, but at least some of companies in our industry appear to be experiencing this problem. In addition, our industry continues to experience very intense competition and increased pricing pressure from our customers. Thus, while we do expect the overall market for spending on communication equipment and services to grow year over year at least slowly in the near term, certain developments may adversely impact the rate of future sales growth as well as place pressure on gross profit margins.

While we are cautious about our ability to be successful in achieving continued revenue growth, we do believe several factors may provide us with the opportunity to increase our sales faster than growth in the overall market in the near term. We believe such sales growth could be achieved through:

New product offerings, such as our OmniReach FTTX solutions being deployed by several communications service providers and the growing acceptance of our Digivance® wireless coverage solution and our TrueNet® and CopperTen enterprise solutions;

Opportunities to cross-sell products among ADC s traditional customer base and the traditional customer base of KRONE following our acquisition in May 2004; and

Increasing our market share in certain areas as we have recently done with respect to some of our product lines.

We continue to be dependent on telecommunications service providers for a majority of our sales, although this dependence has recently declined because of our KRONE acquisition. The four major U.S. telephone companies (Verizon, BellSouth, Qwest and SBC) accounted for 25.9% and 28.6% of our sales for the six months ended April 29, 2005 and April 30, 2004, respectively. In addition, our top ten customers accounted for approximately 41.4% and 45.5% of our net sales for the six months ended April 29, 2005 and April 30, 2004, respectively. The decline in these customer concentration levels from 2004 to 2005 is largely due to the KRONE acquisition, which gave us a more diversified customer base throughout the world. However, the increased diversification may be offset by mergers among our customers. The long-term impact of such mergers on our business is difficult to predict. In addition, in the product areas where we believe the potential for sales growth is most pronounced (e.g. FTTX initiatives and wireless products), our sales remain highly concentrated with the large U.S. telephone companies.

We are continuing to focus on ways to conduct our operations more efficiently and to reduce costs. During the downturn in communications equipment spending from fiscal 2001 through fiscal 2003, we took significant cost-reduction measures. We believe most of our restructuring activity is completed, but will continue to pursue expense reductions. For example, the integration of the KRONE acquisition has presented opportunities to reduce costs through the consolidation of duplicative facilities, the movement of operations into lower cost locations as well as the elimination of duplicative processes and personnel functions. Accordingly, we anticipate incurring additional restructuring charges in future periods.

Following our acquisition of KRONE in fiscal 2004, we intend to continue to explore additional product line or business acquisitions that are complimentary to our communications infrastructure business. For instance, we recently completed the acquisition of OpenCell for $7.25 million in cash. We believe this purchase will enhance our Digivance wireless coverage solution offering. We expect to fund other potential acquisitions with 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. In addition, we will continue to monitor all of our businesses and may determine it appropriate to sell or otherwise dispose of certain operations. For example, in April 2005 we announced our intention to either sell or close our professional services operations in the United Kingdom when it became apparent we would not be able to generate and maintain positive operating income through this business. On May 24, 2005, we completed the sale of this business to a company controlled by one of its former owners from whom we purchased the business in our fiscal year 2000.

Prior to the downturn in our business beginning in fiscal 2001, our results of operations had been subject to seasonal factors, with stronger demand for our products during our fourth fiscal quarter (primarily as a result of customer budget cycles and our fiscal year-end initiatives) and weaker demand for our products during our first fiscal quarter (primarily as a result of the number of holidays in that quarter, our customers development of annual capital budgets during that period and a general industry slowdown during that period). This seasonality in our

business returned in fiscal 2004. At this time we are uncertain whether we will see the same seasonal pattern in our fiscal 2005. It appears that our customers may have advanced some of their annual spending into our second quarter and we presently are not certain whether we will see sequential revenue increases in our third and fourth quarters. We do, however, still expect to post significant year over year revenue and income growth during our third and fourth quarters when compared against the prior periods in our fiscal 2004. A more detailed description of the risks to our business related to seasonality, along with other risk factors associated with our business, can be found in Exhibit 99 of this form 10-Q.

Results of Operations

Net Sales

The following table sets forth our net sales for the three and six months ended April 29, 2005 and April 30, 2004 for each of our segments described above (in millions):

	Three Months Ended			
	April 29, 2005		April 30, 2004	
	Net Sales	%	Net Sales	%
Broadband Infrastructure and Access	$248.7	78.8%	$119.7	77.9%
Professional Services:				
Product	15.8	5.0	8.8	5.7
Service	51.2	16.2	25.1	16.4
Total Professional Services	67.0	21.2	33.9	22.1
Total	$315.7	100.0%	$153.6	100.0%

	Six Months Ended			
	April 29, 2005		April 30, 2004	
	Net Sales	%	Net Sales	%
Broadband Infrastructure and Access	$435.0	77.8%	$222.7	76.7%
Professional Services:				
Product	29.4	5.3	17.2	5.9
Service	94.7	16.9	50.4	17.4
Total Professional Services	124.1	22.2	67.6	23.3
Total	$559.1	100.0%	$290.3	100.0%

Net sales were $315.7 million and $559.1 million for the three and six months ended April 29, 2005, respectively, and increased 105.5% (or 34.2% exclusive of the KRONE acquisition) and 92.6% (or 22.9% exclusive of the KRONE acquisition), respectively, over the comparable 2004 periods. The KRONE acquisition accounted for 67.6% and 75.3% of the net sales increase over the comparable three and six months periods in 2004. Excluding the KRONE acquisition, our sales growth for the three and six months ended April 29, 2004, was driven by strong broad-based growth among our comprehensive communication infrastructure solutions. International sales comprised 44.7% and 29.8% of our net sales for the three months and 47.4% and 29.6% of our net sales for the six months ended April 29, 2005 and April 30, 2004, respectively. The increase in international sales primarily is due to our acquisition of KRONE, which has a greater mix of international sales.

Net sales of Broadband Infrastructure and Access products increased 107.8% and 95.3%, respectively for the three and six months ended April 29, 2005 over the comparable 2004 periods. Our Broadband Infrastructure and Access segment includes infrastructure (connectivity) and access (wireless and wireline) products. The KRONE acquisition accounted for 71.8% and 80.8% of the net sales increase of Broadband Infrastructure and Access products over the comparable three and six months periods in 2004.

Net sales of connectivity products increased 165.3% and 153.5% for the three and six months ended April 29, 2005, respectively, over the comparable 2004 periods. The KRONE acquisition accounted for 70.2% and 75.4%

of the net connectivity increase over the comparable three and six months periods in 2004. Sales of our fiber connectivity products represented 21.7% and 20.6%, respectively of the net connectivity increase over the comparable three and six months periods in 2004. This fiber sales increase was boosted by increased sales of our FTTX products, which had minimal sales in the comparable 2004 periods.

Net sales of wireless products were $18.5 million and $25.0 million for the three and six months ended April 29, 2005, respectively, and increased 54.2% and 24.4%, respectively, over the comparable 2004 periods. The increase in wireless product line sales was a result of improved demand for our Digivance product line due to the timing of product development and production for our new dual band product as well as an improved supply chain for certain Digivance components. Sales of our Digivance product lines are continuing to grow from deployments in large North American cities through Verizon and Nextel.

Net sales of wireline products decreased 34.7% and 39.2% for the three and six months ended April 29, 2005, over the comparable 2004 periods. The decrease in wireline product sales was caused primarily by a general industry-wide decrease in the market demand for high-bit-rate digital subscriber line products as carriers undertake product substitution by delivering fiber and internet protocol services closer to end user premises.

Net sales of Professional Services products increased by 97.6% and 83.6% for the three and six months ended April 29, 2005 over the comparable 2004 periods. The KRONE acquisition represents 51.1% and 54.7% of the increase in net sales of Professional Services products over the comparable three and six months periods in 2004. In addition, market share gains with several legacy customers contributed to the increase in sales.

Gross Profit

During the three and six months ended April 29, 2005, our gross profit percentages were 37.1% (or 38.6% exclusive of the KRONE acquisition) and 35.5% (or 36.7% exclusive of the KRONE acquisition), respectively compared to 40.8% and 40.1%, respectively, for the comparable 2004 periods. The decrease in the gross profit percentage primarily was due to increases in sales of lower margin products caused by the KRONE acquisition and increased sales from FTTX products and Professional Services as well as from the decrease in sales of our wireline products which have relatively high margins. The mix of products we sell in any one quarter is variable and is difficult to predict accurately.

Operating Expenses

Total operating expenses for the three and six months ended April 29, 2005, were $85.6 million and $165.0 million, respectively, representing 27.1% and 29.5% of net sales, respectively. Total operating expenses for the comparable 2004 periods, were $65.8 million and $111.3 million, respectively. KRONE operating expenses were $25.7 million and $51.1 million for the three and six months ended April 29, 2005, respectively. Excluding the effect of the KRONE operating expenses, operating expenses (decreased) increased (9.0)% and 2.3%, respectively, compared to 2004 periods due mainly to the change in selling and administration expenses discussed below.