ADC TELECOMMUNICATIONS INC
Form 10-Q
August 05, 2010

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

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 2, 2010

OR

o **TRANSITION 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.

þ YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o YES o NO

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o YES þ 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: 97,030,803 shares as of August 3, 2010

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INTRODUCTORY NOTE

On July 12, 2010, we entered into an Agreement and Plan of Merger with Tyco Electronics Ltd., a Swiss company, and its indirect subsidiary, Tyco Electronics Minnesota, Inc., which was amended as of July 24, 2010. Pursuant to that agreement, Tyco Electronics Minnesota, Inc. commenced a tender offer to purchase all of our outstanding shares of common stock at a purchase price of $12.75 per share in cash on July 26, 2010. More information on the transaction is included below in Note 15 and Note 18 to our financial statements and at the beginning of Management s Discussion and Analysis of Financial Condition and Results of Operations. We have also filed additional information regarding the transaction with the United States Securities and Exchange Commission (the SEC), all of which is available online at www.sec.gov.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED

	July 2, 2010	September 30, 2009
	(In millions)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 449.2	$ 535.5
Available-for-sale securities	181.0	
Accounts receivable, net of reserves of $11.0 and $9.8	192.6	180.1
Unbilled revenue	31.3	17.5
Inventories, net of reserves of $36.1 and $41.8	116.3	124.6
Prepaid and other current assets	36.6	33.3
Assets of discontinued operations		9.8
Total current assets	1,007.0	900.8
Property and equipment, net of accumulated depreciation of $398.5 and $410.1	147.9	162.8
Restricted cash	8.1	25.0
Goodwill	6.0	0.2
Intangibles, net of accumulated amortization of $164.4 and $144.4	79.4	93.3
Long-term available-for-sale securities	85.3	75.4
Other assets	81.3	86.1
Total assets	$ 1,415.0	$ 1,343.6
LIABILITIES AND SHAREOWNERS INVESTMENT		
Current Liabilities:		
Current portion of long-term debt	$ 0.3	$ 0.6
Accounts payable	82.2	83.0
Accrued compensation and benefits	78.2	57.8
Other accrued liabilities	80.4	63.8
Income taxes payable	3.1	5.9
Restructuring accrual	11.3	22.5
Liabilities of discontinued operations	0.4	2.5
Total current liabilities	255.9	236.1
Pension obligations and other long-term liabilities	78.8	95.6
Long-term notes payable	650.9	651.0
Total liabilities	985.6	982.7
ADC Shareowners Investment:		
Total ADC shareowners investment (97.0 and 96.6 shares outstanding, respectively)	424.6	356.2

Non-controlling interest	4.8		4.7
Total shareowners investment	429.4		360.9
Total liabilities and shareowners investment	$ 1,415.0	$	1,343.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED

	Three Months Ended		Nine Months Ended	
	July 2, 2010	June 26, 2009	July 2, 2010	June 26, 2009
	(In millions, except earnings per share)			
Net Sales:				
Products	$ 264.4	$ 258.4	$ 732.0	$ 748.5
Services	40.0	31.9	112.0	98.1
Total net sales	304.4	290.3	844.0	846.6
Cost of Sales:				
Products	164.7	164.7	459.2	512.4
Services	26.7	23.4	79.8	74.9
Total cost of sales	191.4	188.1	539.0	587.3
Gross Profit	113.0	102.2	305.0	259.3
Operating Expenses:				
Research and development	16.2	16.0	49.4	50.3
Selling and administration	71.8	59.7	212.2	196.6
Impairment charges	(0.1)	0.3	0.6	412.4
Restructuring charges	(1.1)	4.3	12.5	16.6
Total operating expenses	86.8	80.3	274.7	675.9
Operating Income (Loss)	26.2	21.9	30.3	(416.6)
Other Income (Expense), net	51.5	(5.8)	40.7	(56.7)
Income (Loss) before income taxes	77.7	16.1	71.0	(473.3)
Provision (Benefit) for income taxes	1.9	0.9	4.1	(6.1)
Income (Loss) from continuing operations	75.8	15.2	66.9	(467.2)
Discontinued Operations, Net of Tax				
Income (Loss) from discontinued operations	(0.1)	(8.3)	(14.9)	(20.0)
Net Income (Loss)	75.7	6.9	52.0	(487.2)
Net Income (Loss) Available to Non-controlling Interest	(0.1)	0.1	0.6	(1.3)
Net Income (Loss) Available to Common Shareowners	$ 75.8	$ 6.8	$ 51.4	$ (485.9)
Comprehensive Income (Loss) Available to ADC Common Shareowners	$ 71.5	$ 19.9	$ 52.9	$ (495.5)
	(0.1)	0.1	0.6	(1.3)

Comprehensive Income (Loss) Available to Non-controlling Interest				
Comprehensive Income (Loss)	$ 71.4	$ 20.0	$ 53.5	$ (496.8)
Weighted Average Common Shares Outstanding (Basic)	97.0	96.6	96.9	99.6
Weighted Average Common Shares Outstanding (Diluted)	121.6	97.4	98.0	99.6
Basic Earnings (Loss) Per Share:				
Continuing operations available to ADC common shareowners	$ 0.78	$ 0.16	$ 0.68	$ (4.68)
Discontinued operations available to ADC common shareowners		$ (0.09)	$ (0.15)	$ (0.20)
Net income (loss) available to ADC common shareowners	$ 0.78	$ 0.07	$ 0.53	$ (4.88)
Diluted Earnings (Loss) Per Share:				
Continuing operations available to ADC common shareowners	$ 0.68	$ 0.16	$ 0.68	$ (4.68)
Discontinued operations available to ADC common shareowners		$ (0.09)	$ (0.15)	$ (0.20)
Net income (loss) available to ADC common shareowners	$ 0.68	$ 0.07	$ 0.53	$ (4.88)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Nine Months Ended July 2, 2010	Nine Months Ended June 26, 2009
	(In millions)	
Operating Activities:		
Income/(loss) from continuing operations	$ 66.9	$ (467.2)
Adjustments to reconcile income/(loss) from continuing operations to net cash provided by operating activities from continuing operations:		
Inventory write-offs	5.2	23.7
Write-down of goodwill, intangibles and fixed assets	0.6	412.4
Write-down of cost method investment	5.3	3.0
Write-down of available-for-sale securities	3.1	41.3
Depreciation and amortization	46.4	51.4
Restructuring charges	12.5	16.5
Provision for bad debt	1.0	2.0
Change in warranty reserves	(0.9)	1.5
Non-cash stock compensation	11.9	10.2
Change in deferred income taxes	(0.2)	(4.4)
(Gain)/loss on sale of property and equipment	1.3	(0.6)
Amortization of deferred financing costs	1.7	2.5
Gain on sale of investments	(2.2)	(0.4)
Gain on sale of RF signal management product line	(15.9)	
Other, net	4.8	5.1
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable and unbilled revenues (increase)/decrease	(32.3)	29.5
Inventories (increase)/decrease	(0.2)	20.2
Prepaid and other assets (increase)/decrease	(9.3)	0.8
Accounts payable increase/(decrease)	0.6	(6.3)
Accrued liabilities increase/(decrease)	6.0	(65.1)
Total cash provided by operating activities from continuing operations	106.3	76.1
Total cash used for operating activities from discontinued operations	(4.1)	(7.2)
Total cash provided by operating activities	102.2	68.9
Investing Activities:		
Acquisitions, net of cash acquired	(0.6)	(2.7)
Purchases of interests in affiliates	(1.0)	(1.2)
Divestitures, net of cash disposed	11.9	
Property, equipment and patent additions	(21.8)	(28.0)
Proceeds from disposal of property and equipment	0.3	4.6
Decrease/(increase) in restricted cash	16.3	(7.9)
Purchase of available-for-sale securities	(214.3)	(52.0)
Proceeds from sale of available-for-sale securities	27.1	11.9
Other, net		1.1

Total cash used for investing activities from continuing operations	(182.1)	(74.2)
Total cash used for investing activities from discontinued operations		(0.1)
Total cash used for investing activities	(182.1)	(74.3)
Financing Activities:		
Payments of financing costs	(1.6)	
Debt payments	(0.5)	(2.0)
Common stock repurchase		(101.2)
Total cash used for financing activities	(2.1)	(103.2)
Effect of Exchange Rate Changes on Cash	(4.3)	(5.0)
Decrease in Cash and Cash Equivalents	(86.3)	(113.6)
Cash and Cash Equivalents, beginning of period	535.5	601.9
Cash and Cash Equivalents, end of period	$ 449.2	$ 488.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

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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 United States 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 presentation of the results for the interim periods. The operating results for the three and nine months ended July 2, 2010 are not necessarily indicative of the operating results to be expected for the full fiscal year. These statements should be read in conjunction with our most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

During the first quarter of fiscal 2010, our Board of Directors approved a plan to divest our GSM base station and switching business (GSM Business). During the fourth quarter of fiscal 2008, our Board of Directors approved a plan to divest our professional services business in Germany (APS Germany). During the third quarter of fiscal 2006, our Board of Directors approved a plan to divest our professional services business in France (APS France). These businesses were classified as discontinued operations for all periods presented.

Fiscal Year

Our first three quarters end on the Friday nearest to the end of December, March and June, respectively, and our fiscal year ends on September 30.

Due to the change in our fiscal year end date from October 31 to September 30, which was completed in fiscal 2009, the financial statements and financial comparisons included in this Form 10-Q relate to the three and nine month periods ended July 2, 2010 and the three and nine month periods ended June 26, 2009. The financial results for the three and nine month periods ended June 26, 2009 have been recast to allow for comparison based on our new fiscal periods.

Warranty

We provide reserves for the estimated cost of product warranties at the time revenue is recognized. We estimate the costs of our warranty obligations based on our warranty policy or applicable contractual warranty, our historical experience of known product failure rates, and our use of materials and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise.

The following table provides detail on the activity in the warranty reserve accrual balance as of July 2, 2010:

	Accrual September 30, 2009	Charged to costs and expenses	Deductions	Accrual July 2, 2010
Warranty Reserve	$ 6.2	$ (0.9)	$ 0.7	$ 4.6

Share-Based Compensation

Share-based compensation recognized under the Financial Accounting Standards Board (the FASB) Accounting Standard Codification (ASC) Topic 718 for the three and nine month periods ended July 2, 2010 and June 26, 2009 was $3.0 million, $11.9 million, $2.8 million and $10.2 million, respectively. The increase in share-based compensation for the nine month period ended July 2, 2010 was due primarily to an expense adjustment to recognize the difference between actual and estimated forfeitures related to grants that became fully vested during the first quarter of fiscal 2010.

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Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in our most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

Recently Adopted Accounting Pronouncements

Business combinations and non-controlling interests

In December 2007, the FASB issued new accounting guidance related to business combinations and non-controlling interests in consolidated financial statements. In addition to other changes in practice, the guidance requires the acquiring entity in a business combination to recognize and measure all assets acquired and liabilities assumed at their respective acquisition date fair values. The guidance also requires non-controlling (minority) interests in a subsidiary to be reported as equity in the financial statements, separate from the parent s equity. We have adopted this guidance effective October 1, 2009. We have reclassified financial statement line items within our condensed consolidated balance sheets and statements of operations for the prior period to conform to the non-controlling interest guidance. Additionally, see Notes 10 and 11 for disclosures reflecting the impact of the new guidance on our reconciliations of comprehensive income and equity, respectively.

Fair Value Measurements

In January 2010, the FASB issued new accounting guidance improving disclosures about fair value measurements. The guidance requires additional disclosures concerning transfers between the levels within the fair value hierarchy and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. The new guidance also clarifies the requirement to provide fair value measurement disclosures for each class of asset and liability and clarifies the requirement to disclose information about both the valuation techniques and inputs used to estimate Level 2 and Level 3 measurements. We adopted this guidance effective January 2, 2010. The adoption of this guidance resulted in additional disclosures and had no material impact on our consolidated financial statements.

In September 2006, the FASB issued new accounting guidance related to fair value measurements. In February 2008, the FASB issued guidance delaying the effective date of the accounting guidance for nonfinancial assets and nonfinancial liabilities until the beginning of fiscal 2010, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted this guidance effective October 1, 2009. The adoption of the guidance had no material impact on our consolidated financial statements.

In August 2009, the FASB issued guidance regarding measuring liabilities at fair value. This guidance clarifies how the fair value of a liability should be determined. Among other things, the guidance clarifies how the price of a traded debt security (i.e., an asset value) should be considered in estimating the fair value of the issuer s liability. We adopted this guidance effective October 1, 2009. The adoption of this guidance had no material impact on our consolidated financial statements.

Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued accounting guidance that clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The accounting guidance requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer s nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The guidance requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on debt to be recognized as part of interest expense. The guidance requires retrospective application to the terms of the instruments as they existed for all periods presented. We adopted the guidance effective October 1, 2009. The adoption of the guidance did not impact our consolidated financial statements because our convertible debt cannot be settled in cash upon conversion.

Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity s Own Stock

In June 2008, the FASB issued accounting guidance regarding the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock. The guidance provides that the entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock. This includes evaluating the instrument s

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contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. We adopted the guidance effective October 1, 2009. The adoption of the guidance had no material impact on our consolidated financial statements.

Note 2: Discontinued Operations

GSM Business

On December 31, 2009, we divested substantially all of the assets related to our GSM Business to Altobridge Limited (Altobridge). In connection with the transaction, we also provided Altobridge $4.3 million in cash, a portion of which was held back for certain transition services. Altobridge also assumed various liabilities related to the business. We recorded a loss on the sale in the amount of $13.0 million.

During the nine months ended July 2, 2010, in connection with the sale of our GSM Business, we wrote off the value of inventory and fixed assets having carrying amounts of $6.3 million and $0.5 million, respectively. The amounts written off were recognized as part of the loss on sale of this business.

APS Germany

During the fourth quarter of fiscal 2008, our Board approved a plan to divest APS Germany. On July 31, 2009, we sold all of the capital stock of our subsidiary that operated APS Germany to telent Investments Limited for a cash purchase price of $3.3 million resulting in a total loss on sale of $5.2 million.

APS France

On January 12, 2007, we completed the sale of certain assets of APS France to a subsidiary of Groupe Circet, a French company, for a cash price of $0.1 million. We recorded a total loss on this sale of $27.3 million. During the first quarter of fiscal 2010 we recognized income of $0.5 million within discontinued operations resulting from the reversal of a reserve for an uncertain tax position related to APS France for which the statute of limitations expired.

The financial results of the GSM Business, APS Germany, and APS France are reported separately as discontinued operations for all periods presented in accordance with the accounting guidance related to discontinued operations. The following are the consolidated financial results of the GSM Business, APS Germany, and APS France included in discontinued operations:

	Three Months Ended		Nine Months Ended	
	July 2, 2010	June 26, 2009	July 2, 2010	June 26, 2009
	(In millions)		(In millions)	
Net sales	$	$ 8.2	$ 2.3	$ 27.4
Loss from discontinued operations	$ (0.1)	$ (3.1)	$ (1.9)	$ (14.8)
Loss on sale of discontinued operations		(5.2)	(13.0)	(5.2)
Total loss of discontinued operations	$ (0.1)	$ (8.3)	$ (14.9)	$ (20.0)

Note 3: 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 available to common shareowners:

	Three Months Ended		Nine Months Ended	
	July 2, 2010	June 26, 2009	July 2, 2010	June 26, 2009
	(In millions, except per share amounts)		(In millions, except per share amounts)	
Numerator:				
Net income (loss) from continuing operations	$ 75.8	$ 15.2	$ 66.9	$ (467.2)

Net income (loss) available to non-controlling interest	(0.1)	0.1	0.6	(1.3)
Income (loss) from continuing operations available to common shareowners	$ 75.9	$ 15.1	$ 66.3	$ (465.9)
Interest and amortization expense for convertible notes	6.6			

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	Three Months Ended		Nine Months Ended	
	July 2, 2010	June 26, 2009	July 2, 2010	June 26, 2009
	(In millions, except per share amounts)		(In millions, except per share amounts)	
Diluted income (loss) from continuing operations available to common shareowners	$ 82.5	$ 15.1	$ 66.3	$ (465.9)
Denominator:				
Weighted average common shares outstanding basic	97.0	96.6	96.9	99.6
Convertible bonds converted to common stock	23.3			
Employee options and other	1.3	0.8	1.1	
Weighted average common shares outstanding diluted	121.6	97.4		