ADC TELECOMMUNICATIONS INC
Form 10-Q
March 09, 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 January 28, 2005

OR

o **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 o

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

Yes x No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common stock, $.20 par value: 810,771,091 shares as of March 7, 2005

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED

(In millions)

	January 28, 2005	October 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 88.4	$ 67.0
Available-for-sale securities	425.0	434.6
Accounts receivable, net	145.2	158.0
Unbilled revenue	39.9	36.5
Inventories, net	109.2	97.8
Assets of discontinued operations		16.6
Prepaid and other current assets	35.6	25.1
Total current assets	843.3	835.6
Property and Equipment, Net	229.0	233.0
Restricted Cash	24.9	21.9
Goodwill	180.1	180.1
Intangibles, Net	90.2	93.0
Available-for-sale securities	29.1	26.8
Other Assets	36.3	37.7
Total assets	$ 1,432.9	$ 1,428.1
LIABILITIES AND SHAREOWNERS INVESTMENT		
Current Liabilities:		
Accounts payable	$ 72.7	$ 72.8
Accrued compensation and benefits	46.9	65.9
Other accrued liabilities	73.5	81.7
Income taxes payable	24.9	27.6
Restructuring accrual	32.6	38.4
Liabilities of discontinued operations		15.6
Total current liabilities	250.6	302.0
Pension Obligations and Other Long-Term Liabilities	69.4	66.8
Long-Term Notes Payable	400.0	400.0
Total liabilities	720.0	768.8
Shareowners Investment:		
(809.7 and 810.1 shares outstanding, respectively)	712.9	659.3
Total liabilities and shareowners investment	$ 1,432.9	$ 1,428.1

See accompanying notes to condensed consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED
(In millions, except per share amounts)

	Three Months Ended	
	January 28, 2005	January 31, 2004
Net Sales:		
Product	$ 199.9	$ 111.4
Service	43.5	25.3
Total Net Sales	243.4	136.7
Cost of Sales:		
Product	122.9	58.9
Service	38.9	23.9
Total Cost of Sales	161.8	82.8
Gross Profit	81.6	53.9
Operating Expenses:		
Research and development	15.2	12.4
Selling and administration	61.0	31.3
Restructuring charges	3.2	1.8
Total Operating Expenses	79.4	45.5
Operating Income	2.2	8.4
Other Income, Net	12.4	7.8
Income Before Income Taxes	14.6	16.2
Provision (Benefit) for Income Taxes	1.0	(0.1)
Income From Continuing Operations	13.6	16.3
Discontinued Operations, Net of Tax		
Income (loss) from discontinued operations	2.7	(15.1)
Gain (loss) on sale of discontinued operations, net	36.2	(3.6)
Total Discontinued Operations	38.9	(18.7)
Net Income (Loss)	$ 52.5	$ (2.4)
Weighted Average Common Shares Outstanding (Basic)	809.4	806.8
Weighted Average Common Shares Outstanding (Diluted)	811.6	911.9
Basic and Diluted Income (Loss) Per Share:		
Continuing operations	$ 0.02	$ 0.02
Discontinued operations	$ 0.04	$ (0.02)
Net income (loss)	$ 0.06	$ 0.00

See accompanying notes to condensed consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
(In millions)

	Three Months Ended	
	January 28, 2005	January 31, 2004
Operating Activities:		
Net income from continuing operations	$ 13.6	$ 16.3
Adjustments to reconcile net income from continuing operations to net cash (used by) provided by operating activities from continuing operations:		
Depreciation and amortization	13.9	9.9
Change in bad debt reserves	(0.4)	(2.2)
Change in inventory reserves	(0.4)	(0.2)
Change in warranty reserves	(1.2)	
Non-cash stock compensation	0.7	0.6
Change in deferred income taxes	0.6	
Gain on sale of investments		(4.4)
Loss on sale of business		0.3
Gain on sale of property and equipment	(0.6)	(0.4)
Other, net	(11.2)	(0.7)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable and unbilled revenues	15.5	11.7
Inventories	(10.1)	(4.7)
Prepaid and other assets	(3.6)	6.3
Accounts payable	(0.8)	0.5
Accrued liabilities	(33.6)	(14.0)
Total cash (used by) provided by operating activities from continuing operations	(17.6)	19.0
Total cash provided by (used by) operating activities from discontinued operations	1.5	(25.2)
Total cash used by operating activities	(16.1)	(6.2)
Investing Activities:		
Divestitures, net of cash disposed	33.6	5.0
Property and equipment additions	(4.6)	(2.9)
Proceeds from disposal of property and equipment	3.1	5.6
Increase in restricted cash	(3.0)	(0.2)
Change in available-for-sale securities	7.3	(217.8)
Total cash provided by (used by) investing activities	36.4	(210.3)
Financing Activities:		
Repayments of debt		(0.8)
Common stock issued	0.9	1.8
Total cash provided by financing activities	0.9	1.0
Effect of Exchange Rate Changes on Cash	0.2	(0.1)
Increase (Decrease) in Cash and Cash Equivalents	21.4	(215.6)
Cash and Cash Equivalents, beginning of period	67.0	288.1

Cash and Cash Equivalents, end of period	$ 88.4	$ 72.5

See accompanying notes to condensed consolidated financial statements.

ADC TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

Note 1 - Basis of Presentation:

The interim information furnished in this report is unaudited but 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 quarter ended January 28, 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.

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 amends SFAS No. 123, Accounting for Stock-Based Compensation and 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. The provisions of the interpretation are effective for periods that begin after June 15, 2005, which will be our fourth quarter beginning July 30, 2005. 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 the adoption of this standard will reduce fourth quarter 2005 net income by approximately $5.0 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.

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.

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 January 28, 2005 and October 31, 2004, auction rate securities were $417.2 million and $427.3 million, respectively.

Note 2 Stock-Based Compensation:

We recognize and measure our stock compensation by the intrinsic value method in accordance with APB 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 quarter of fiscal 2005 and fiscal 2004, because all stock options were issued at 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.

Accordingly, 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 , on a quarterly basis, we must disclose 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	
	January 28, 2005	January 31, 2004
Net income (loss) as reported	$ 52.5	$ (2.4)
Plus: Stock-based employee compensation expense included in reported income (loss)	0.7	0.6
Less: Stock compensation expense fair value based method	(4.6)	(7.0)
Pro forma net income (loss)	$ 48.6	$ (8.8)
Income (Loss) Per Share		
As reported Basic and Diluted	$ 0.06	$ 0.00
Pro forma Basic	$ 0.06	$ (0.01)
Pro forma Diluted	$ 0.06	$ 0.00

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 $2.83 per share, which is equal to the average of the high and low trading price of our common stock on the grant date. These options are vesting 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 increases our network infrastructure business and expands our presence in the international marketplace. The results of KRONE subsequent to May 18, 2004 are included in our results of operations.

Unaudited pro forma consolidated results of continuing operations for the three months ended January 31, 2004, as though the acquisition of KRONE had taken place at the beginning of such period, are as follows (in millions, for the three months ended January 31, 2004, except per share data):

	Three Months Ended January 31, 2004
Net sales	$ 217.0
Income from continuing operations (1)	$ 10.8
Net income per share basic and diluted	$ 0.01

(1) Includes restructuring charges of $1.8 million for the three months ended January 31, 2004, for ADC s historical stand-alone business and $2.2 million for the KRONE s historical stand-alone business. 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 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 is payable within two years of the closing.

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. In consideration for this sale, we were issued a non-voting minority interest in BigBand, which was 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 January 28, 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 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 January 28, 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 and 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.

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	
	January 28, 2005	**January 31, 2004**
Net sales	$ 0.9	$ 36.8
Income (Loss) from discontinued operations	$ 2.7	$ (15.1)
Gain (Loss) on sale of subsidiaries	36.2	(3.6)
Gain (Loss) from discontinued operation	$ 38.9	$ (18.7)

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	
	January 28, 2005	January 31, 2004
Numerator:		
Net income from continuing operations	$ 13.6	$ 16.3
Denominator:		
Weighted average common shares outstanding - basic	809.4	806.8
Employee options and other	2.2	105.1
Weighted average common shares outstanding - diluted	811.6	911.9
Basic and diluted income per share from continuing operations	$ 0.02	$ 0.02

Excluded from the dilutive securities described above are employee stock options to acquire 40.3 million and 39.0 million shares for the three months ended January 28, 2005 and January 31, 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 and would have had an anti-dilutive effect.

Warrants to acquire 99.7 million shares issued in connection with our convertible notes were excluded from the dilutive securities described above for the three months ended January 28, 2005 and January 31, 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 months ended January 28, 2005 because of their anti-dilutive effect. However, these shares were included for the three months ended January 31, 2004. 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 99.7 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 99.7 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 99.7 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):

	January 28, 2005	October 31, 2004
Purchased materials and manufactured products	$ 141.9	$ 132.1
Work-in-process	4.8	7.7
Less: Inventory reserve	(37.5)	(42.0)
Total inventories, net	$ 109.2	$ 97.8

Note 7 Property & Equipment:

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

	January 28, 2005	October 31, 2004
Land and buildings	$ 138.5	$ 135.7
Machinery and equipment	363.5	364.1
Furniture and fixtures	37.3	38.2
Less: Accumulated depreciation	(322.2)	(316.0)
Total	217.1	222.0
Construction in progress	11.9	11.0
Total property & equipment, net	$ 229.0	$ 233.0

Note 8 Intangible Assets:

The following table represents intangible assets by category and accumulated amortization as of January 28, 2005 (in millions):

	Gross Carrying Amounts	Accumulated Amortization	Net	Estimated Life Range (in years)
Technology	$ 28.9	$ 3.6	$ 25.3	5-7
Trade name/trademarks	25.3	0.9	24.4	5-20
Distributor network	10.1	0.7	9.4	10
Customer list	4.5	1.0	3.5	2
Patents	20.4	8.6	11.8	3-7
Other	18.4	2.6	15.8	1-13
	$ 107.6	$ 17.4	$ 90.2	

Amortization expense was $3.5 million and $0.6 million for the three months ended January 28, 2005 and January 31, 2004, respectively, which included $2.6 million of acquired intangible amortization for the three months ended January 28, 2005. The estimated amortization expense for identified intangible assets is as follows for the periods indicated (in millions):

Remaining 2005	$ 10.7
2006	14.1
2007	11.4
2008	11.1
2009	8.8
2010	6.0
Thereafter	28.1
Total	$ 90.2

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. GAAP-based 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. As of January 28, 2005, we had $1,059.3 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 $225.7 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	
	January 28, 2005	January 31, 2004

Net income (loss)	$	52.5	$	(2.4)
Change in cumulative translation adjustments		(0.2)		4.4
Reclassification adjustment for realized losses (gains) on securities classified as available for sale		0.1		(4.1)
Unrealized loss from securities classified as available for sale		(0.2)		(0.2)
Total comprehensive income (loss)	$	52.2	$	(2.3)

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 January 28, 2005
Service cost	$ 0.1
Interest cost	0.8
Net period benefit cost	$ 0.9

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 and operating income are eliminated from Professional Services. 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. 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 revenue 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	
	January 28, 2005	January 31, 2004
Infrastructure Products (Connectivity)	$ 163.8	$ 68.3
Access Products (Wireline and Wireless)	22.5	34.7
Broadband Infrastructure and Access	186.3	103.0
Professional Services	57.1	33.7
Total net sales	$ 243.4	$ 136.7