ADC TELECOMMUNICATIONS INC
Form 10-KT
November 23, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form 10-K**

**(Mark One)**

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

**For the fiscal year ended**

**OR**

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

**For the transition period from November 1, 2008 to September 30, 2009**

**Commission File No. 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, Minnesota** | **55344-2252** |
| *(Address of principal executive offices)* | *(Zip Code)* |

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 such shorter period that the registrant was required to submit and post such files) o Yes o No

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

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<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant based on the last sale price of such stock as reported by The NASDAQ Global Select Market® on March 27, 2009, was $422,667,422.

The number of shares outstanding of the registrant s common stock, $0.20 par value, as of November 17, 2009, was 96,626,431.

**DOCUMENTS INCORPORATED BY REFERENCE**

A portion of the information required by Part III of this report is incorporated by reference from portions of our definitive proxy statement for our 2010 Annual Meeting of Shareowners to be filed with the Securities and Exchange Commission.

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**Introductory Note**

On July 22, 2008, our Board of Directors approved a change in our fiscal year end from October 31st to September 30th commencing with fiscal 2009. As a result, fiscal 2009 was shortened from 12 months to 11 months. In this report, when financial results for fiscal 2009 are compared to financial results for fiscal 2008, the results for an 11 month period are being compared to the results for a 12 month period.

We are using this report to transition to a quarterly reporting cycle that corresponds to a September 30th fiscal year end. Therefore, for financial reporting purposes our fourth quarter of fiscal 2009 was shortened from the quarterly period ended October 31, 2009 to an approximate two-month period ended September 30, 2009.

As used in this report, fiscal 2007, fiscal 2008, and fiscal 2009 refer to our fiscal years ended October 31, 2007 and 2008 and September 30, 2009, respectively. As used in this report, fiscal 2010 and fiscal 2011 refer to our fiscal years that will end September 30, 2010 and 2011, respectively.

## PART I

## Item 1. *BUSINESS*

### General

ADC Telecommunications, Inc. ( ADC, we, us or our ) was incorporated in Minnesota in 1953 as Magnetic Cont Company. We adopted our current name in 1985. Our World Headquarters are located at 13625 Technology Drive in Eden Prairie, Minnesota. Our telephone number is (952) 938-8080.

We are a leading global provider of broadband communications network infrastructure products and related services. Our products offer comprehensive solutions that enable the delivery of high-speed Internet, data, video and voice communications over wireline, wireless, cable, enterprise and broadcast networks. These products include fiber-optic, copper and coaxial based frames, cabinets, cables, connectors and cards, wireless capacity and coverage solutions, network access devices and other physical infrastructure components.

Our products and services are deployed primarily by communications service providers and owners and operators of private enterprise networks. Our products are used mainly in the edge of communications networks where Internet, data, video and voice traffic are linked from the serving office of a communications service provider to the end-user of communication services. Our products include:

- Connectivity solutions that provide the physical interconnections between network components and network access points. These products connect wireline, wireless, cable, enterprise and broadcast communication networks over fiber-optic, copper (twisted pair), coaxial, and wireless media.
- Wireless solutions that help improve coverage and capacity for wireless networks. These products improve signal quality, increase coverage and capacity into expanded geographic areas, increase the speed and expand the delivery and capacity of networks, and help reduce the capital and operating costs of delivering wireless services. Applications for these products include in-building solutions, outdoor coverage solutions and mobile network solutions.

We also provide professional services to our customers. These services help our customers plan, deploy and maintain Internet, data, video and voice communication networks. We also assist our customers in integrating broadband communications equipment used in wireline, wireless, cable and enterprise networks. By providing these services, we have additional opportunities to sell our products.

We have the following three reportable business segments:

- Global Connectivity Solutions ( Connectivity )

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Network Solutions
Professional Services

During the fourth quarter of fiscal 2008, we initiated a restructuring of our Network Solutions segment by exiting several outdoor wireless product lines. During the first quarter of fiscal 2009, we made further changes to the Network Solutions segment by moving the Wireline solutions business to the Connectivity segment in order to better manage and utilize resources and drive profitability. As a result of this change, we have changed our reportable segments to conform to our current management reporting presentation. We have reclassified prior year segment disclosures to conform to the new segment presentation.

Our corporate website address is www.adc.com. In the Financial Information category of the Investor Relations section of our website, we make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available free of charge as soon as reasonably practicable after these reports are filed with or furnished to the United States Securities and Exchange Commission (the SEC ). The Corporate Governance category of the Investor Relations section of our website also contains copies of our Financial Code of Ethics, our Principles of Corporate Governance, our Global Business Conduct Program, our Articles of Incorporation and Bylaws, Description of Roles of Independent Lead Director and Executive Chairman and the charter of each committee of our Board of Directors. Each of these documents can also be obtained free of charge (except for a reasonable charge for duplicating exhibits to our reports on Forms 10-K, 10-Q or 8-K) in print by any shareowner who requests them from our Investor Relations department. The Investor Relations department s email address is investor@adc.com and its mailing address is: Investor Relations, ADC Telecommunications, Inc., P.O. Box 1101, Minneapolis, Minnesota 55440-1101. Information on our website is not incorporated by reference into this report or any other report we file with or furnish to the SEC.

**Industry and Marketplace Conditions**

Over the longer term, we believe that the ever-increasing consumption of bandwidth will drive a continued migration to next-generation networks that can deliver reliable broadband services at low, often flat-rate prices over virtually any medium anytime and anywhere. We believe this evolution particularly will impact the edge of the network where our products and services primarily are used and where constraints in the high-speed delivery of communications services are most likely to occur. For us to participate as fully as possible in this evolution we must focus a significant amount of our resources on the development and sale of next-generation network infrastructure products.

We believe there are two key elements driving the migration to next-generation networks:

First, businesses and consumers worldwide are becoming increasingly dependent on broadband, multi-service communications networks to conduct a wide range of daily communications tasks for business and personal purposes (*e.g.*, emails with large amounts of data, teleconferencing, social networking, video streaming and photo sharing).

Second, end-users of communications services increasingly expect to do business over a single network connection at a low price. Both public networks operated by communications service providers and private enterprise networks are evolving to provide combinations of Internet, data, video and voice services that can be offered over the same high-speed network connection.

This evolution to next-generation networks impacts our industry significantly. Many of our communications service provider customers now focus their investments in these next-generation networks to differentiate themselves from their competitors by providing more robust services at increasing speeds. They believe such network advancements will attract business and consumer customers and allow them to grow their businesses.

Next-generation network investment by communications service providers has tended to come in the form of large, multi-year projects, and these significant projects have attracted many equipment vendors, including us. We believe that it is important for us to participate in these projects to grow our business. We have focused our strategy on the products that will be used in these projects. These include central office fiber-based equipment, wireless coverage and capacity equipment, and equipment to aid the deployment of fiber-based networks closer to the ultimate customer (*i.e.*, fiber to the node, curb, residence, cell site, or business, which we collectively refer to as our FTTX products).

Spending on these next-generation initiatives by our customers has not resulted in significant overall spending increases on all categories of network infrastructure equipment. In fact, overall spending on network infrastructure equipment in total has decreased

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over the past year due to the impact of the global recession. Even prior to the current recession, industry observers anticipated that in the next few years overall global spending on communications infrastructure equipment would be relatively flat. Over the long-term, we therefore believe our ability to compete in the communications equipment marketplace depends in significant part on whether we can continue to develop and market effectively next-generation network infrastructure products.

**Current Global Macro-Economic Conditions**

The global recession has had, and likely will continue to have, a significant impact on our industry and our business. During fiscal 2009, our financial results were impacted materially and adversely by reduced spending by our customers. We believe it is likely our customers will continue to spend conservatively during fiscal 2010 because of the continued uncertainties in the macro-economy and the related impact on the profitability and growth of their own businesses. However, we cannot predict how long, and to what extent, the global recession will continue to affect our business.

In July 2008 we announced that our fiscal year end would be changed from October 31$^{st}$ to September 30$^{th}$ beginning with our fiscal 2009. Fiscal 2009 was therefore an 11 month year and many differences in the reported results between fiscal 2009 and fiscal 2008 are amplified by this fact. Still we believe a comparison between fiscal 2009 and fiscal 2008 demonstrates that the recession impacted our business in a number of ways during fiscal 2009. For instance:

- Our net sales decreased by 31.6% compared to fiscal 2008;
- As a result of significant international sales, our net sales were negatively impacted by the relative strengthening of the U.S. dollar against a majority of other currencies during fiscal 2009. In recent months the dollar has begun to weaken against other currencies. Changes in foreign currency exchange rates reduced net sales during fiscal 2009 by approximately $34.0 million, versus fiscal 2008;
- Despite reducing actual expenditures for research and development and selling and administrative costs during our fiscal 2009 compared to fiscal 2008, these costs grew as a percentage of our net sales because of lower sales volumes; and
- During the first quarter of fiscal 2009, we recorded a $413.9 million charge related to the impairment of all of our goodwill and the impairment of other long-lived assets as a result of our reduced expectations of near-term financial performance and the decline in our market capitalization.

In response to the adverse impacts of the recession on our business, we took significant steps to lower our operating cost structure. Largely as a result of these actions, we believe we were able to avoid significant drops in our gross margin percentages compared to fiscal 2008 despite significant decreases in our net sales. Our gross margin percentage in fiscal 2009 was 33.1% compared to 33.6% in fiscal 2008. During fiscal 2009, we announced a series of significant restructuring initiatives, including many that are still being executed. These initiatives included reductions in our employee base at various locations around the world, facility closures, and increased utilization of resources and operations in low cost locations. These actions were designed to adjust our operations appropriately to lower levels of demand from our customers, while also allowing us to continue to invest for the future. We also discontinued certain outdoor wireless coverage product lines in the fourth quarter of fiscal 2008 and completed the sale of our APS Germany services business on July 31, 2009. On October 30, 2009, we also completed the sale of our copper-based RF signal management product line. We made these sales in part because we did not believe these businesses were strategic to our ongoing operations. Depending on the severity and length of the recession and its impact on our business, we may determine it appropriate to take additional actions to reduce costs and improve our business model in the future. We cannot provide assurance that these initiatives will achieve their stated goals in producing a more efficient and effective operation with a lower cost structure and improved financial performance. In addition, the focus and attention that is given to these initiatives could impact our ability to identify and execute on growth or other initiatives that could benefit our business and could also lead to decreased employee morale as these actions require our employees to do more with less resources.

**Strategy**

***Market Goals***

Our long-term goal is to be the leading global provider of communications network infrastructure solutions and services. To achieve our goal, we believe we must sell products that support the migration to next generation networks in developed countries, while also serving the growing demand for communication services in developing countries with our network infrastructure solutions.

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This migration primarily is taking place in the market segments of fiber-based and wireless communications networks. We believe we can address these market opportunities with our products that include central office fiber, FTTX, microcellular wireless capacity/coverage, and enterprise network and data center solutions.

Over the past few years, fiber products and FTTX products have become a greater percentage of our sales as service providers build out their fiber networks closer to the end user, as well as provide more network capacity to support 3G and 4G wireless services. Maintaining and growing our position as a leading global provider of central office fiber and FTTX solutions is therefore important to our strategy and long-term success.

In addition, we believe that service providers and enterprises around the world want to expand the coverage and capacity of wireless networks more efficiently by strategically deploying more microcellular network solutions. This is especially applicable inside buildings and in capacity-strained outdoor areas that are poorly served by macro-cellular network solutions such as cell towers. We believe that our microcellular network solutions that distribute coverage and capacity to targeted areas not served well by macro-cellular network solutions will help service providers and enterprises achieve these goals.

The migration to high performance fiber-based enterprise networks and data centers with public and private organizations also represents an ongoing opportunity for our solutions. Today s advanced business requirements mean that organizations are rethinking the entire enterprise infrastructure to support new technologies and mission-critical applications. We believe that our products provide organizations with comprehensive end-to-end solutions to help them meet their need for reliable, environmentally responsible and high-bandwidth networks.

Finally, in addition to targeting growth in these fiber-based and wireless market segments, we will also seek to expand our presence in growing markets in developing countries around the world. We expect communications spending rates in developing countries to outpace such rates in more developed parts of the world for the foreseeable future. In China, for example, we have experienced significant revenue growth during the past year primarily because, as a result of significant government investment in the country s 3G network, spending in China for telecommunications products has remained strong despite the global recession.

***Business Priorities***

Given conditions in the global economy and the marketplace in our industry, we believe we must continue to focus on the following business priorities to advance our market goals:

- Business growth in fiber-based and wireless communications networks, and in growing markets and geographies;
- Operational excellence that drives low-cost industry leadership and provides our customers with superior products and support; and
- Improved customer service and focus through alignment with the next generation network needs of our global customer base.

*Business Growth in Areas of High Strategic Importance.* We are focused on growing our business in markets and geographies we consider to be of high strategic importance. We will service the high growth market segments within fiber-based and wireless communications networks with central office fiber, FTTX, enterprise data center fiber and microcellular wireless coverage and capacity product solutions. We will also focus on markets in developing countries.

We believe growth in these areas may come either from our own internal initiatives to expand our product offerings through research and development activities, additional sales, marketing and other operating resources, or from the acquisition of new businesses, products, and sales channels closely related to our existing product portfolio.

*Operational Excellence and Low Cost Industry Leadership*. We continue to implement initiatives designed to better align our business with changing macro-economic and market conditions that we believe will better enable us to meet the needs of our global customer base more efficiently and effectively. These initiatives are designed to reduce our operating cost structure and improve organizational efficiency through a variety of actions that include, but are not limited to, the following:

- migrating sales volume to customer-preferred, leading technology products and sunsetting end of life products;
- improving our customers ordering experience through a faster, simpler, more efficient inquiry-to-invoice process;

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- redesigning product lines to gain efficiencies from the use of more common components and improve customization capabilities;
- increasing direct material savings from strategic global sourcing;
- improving cash flow from supplier-managed inventory and lead-time reduction programs;
- relocating certain manufacturing, engineering and other operations from higher-cost geographic areas to lower-cost areas;
- implementing new operating methods designed to uncover increased operational efficiencies;
- reducing the number of locations from which we conduct general and administrative support activities such as invoicing and back-office functions; and
- focusing our resources on core operations, and, where appropriate, using third parties to perform non-core processes.

These initiatives have yielded significant ongoing cost savings to our operations since fiscal 2006 and have allowed us to effectively manage through the global economic recession. For instance, during fiscal 2009, as a result of these initiatives, we kept our gross margins in line with fiscal 2008 margins despite substantially lower sales volumes. In addition, these savings have helped to generate leverage in our operating model and to offset pricing pressures and unfavorable mixes in product sales that can have negative impacts on our operating results. Our ability to continue to implement these initiatives is subject to numerous risks and uncertainties and no assurance can be given that this strategy will be successful. In addition, our gross profit percentages will continue to fluctuate from period to period due to several factors, including, but not limited to, sales volume, raw material and freight costs, product mix and the impact of future potential efficiency and cost saving initiatives.

*Improved Customer Service and Focus*. We remain highly committed to creating a compelling value proposition for our customers. This includes helping our customers maximize their return on investment, evolve their networks and simplify network deployment challenges in providing communications services to end-users. We strive to offer customer-specific solutions, price-competitive products with high functionality and quality, and world-class customer service and support that collectively will better position us to grow our business in a cost-effective manner. We also are focused on developing ways to sell more of our current portfolio and our newly developed products to existing customers and to introduce our products to new customers. The cornerstone of these initiatives is our commitment to understand and respond to our customers needs.

We also continuously seek to partner with other companies as a means to serve the public and private communication network markets and to offer more complete solutions for our customers needs. Many of our connectivity products in particular are conducive to incorporation by other equipment vendors into a systems-level solution. We also believe there are opportunities for us to sell more of our products through indirect sales channels, including systems integrators and value added resellers. We have over 500 value-added reseller partners worldwide. In addition, we are expanding our relationships with distributors to make our products more readily available to a wider base of customers worldwide.

Our ability to implement this strategy and operate our business effectively is subject to numerous uncertainties, the most significant of which are described in Part 1, Item 1A Risk Factors in this report.

**Product and Service Offering Groups**

The following table shows the percent of net sales for each of our three reportable segments for the three fiscal years ended September 30, 2009 and October 31, 2008 and 2007:

| **Reportable Segment** | **2009** | **2008** | **2007** |
|---|---|---|---|
| Connectivity | 79.0% | 79.0% | 84.0% |
| Network Solutions | 7.3 | 8.5 | 3.2 |
| Professional Services | 13.7 | 12.5 | 12.8 |
| Total | 100.0% | 100.0% | 100.0% |

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

**Connectivity**

Our connectivity devices are used in fiber-optic, copper (twisted pair), coaxial, wireless and broadcast communications networks. These products generally provide the physical interconnections between network components or access points into networks. As of September 30, 2009, Our Connectivity products include:

*FTTX Products.* Our OmniReach$^{tm}$ product family of fiber distribution terminals, fiber access terminals, passive optical splitter modules, wavelength division multiplexer modules, connectors, enclosures and drop cables provide customers with a flexible architecture to deploy FTTX solutions.

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

*DSX and DDF Products.* Our digital signal cross-connect ( DSX ) and digital distribution frame ( DDF ) modules, panels and bays are designed to terminate and cross-connect copper cables and gain access to digital signals for Internet, data, video and voice transmission. We offer DSX and DDF products to meet global market needs for both twisted-pair and coaxial cable solutions.

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

*Broadcast and Entertainment Products.* Our broadcast and entertainment products are audio, video, data patching and connectors used to connect and access worldwide broadcast radio and television networks. Our Pro-Patch® products are recognized as the industry leader in digital broadcast patching. Our ProAx® triaxial connectors are used by operators of mobile broadcast trucks, DBS satellite and large venue, live broadcasts such as the Olympic games. We have also introduced a new line of HDTV products for the digital broadcast industry.

**Network Solutions**

Our Network Solutions products help improve coverage and capacity for microcellular wireless networks. These products include:

*In-building Wireless Coverage/Capacity Solutions.* Our family of indoor wireless systems products provide coverage and capacity for wireless network operators in in-building environments such as office buildings or college campuses. We sell these solutions directly to the major providers of cellular telephone services, to national and regional carriers, including those in rural markets, enterprise markets and to neutral host facility providers that lease or resell coverage and capacity to the cellular carriers.

*Outdoor Wireless Coverage/Capacity Solutions.* Our family of outdoor wireless systems products provides coverage and capacity for wireless network operators in outdoor metro and expanded venue environments such as open-air stadiums. These solutions help customers address coverage and capacity challenges in locations such as tunnels, traffic corridors and urban centers. These solutions are sold directly to the major providers of cellular telephone services, to the national and regional carriers, including those in rural markets, and to neutral host facility providers that lease or resell coverage and capacity to the cellular carriers.

*Cell-Site Solutions*: Our ClearGain® family of tower-top and ground mounted amplifier products improve signal quality by boosting the uplink signal of a mobile system to increase receiver performance and improve overall coverage. These products amplify wireless signals and enhance performance and are sold primarily to wireless carriers.

**Professional Services**

We also offer systems integration services for broadband, multiservice communications over wireline, wireless, cable and enterprise networks. These services help our customers plan, deploy and maintain communications networks that deliver Internet,

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data, video and voice services to consumers and businesses. These services support customers throughout the technology life-cycle, from network design, build-out and turn-up to testing, and are utilized by our customers in creating and maintaining intra-office, inter-office or coast-to-coast networks.

Providing these services gives us the opportunity to sell more of our products to users of our Professional Services. We offer these services primarily in North America and recently completed the divestiture of the services business that we operated in Europe. This decision was made because the business in Europe was not considered to be consistent with our strategic long-term goals.

**Customers**

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

- the public communications network market worldwide, which includes major telephone companies such as Verizon, AT&T, Sprint, Telefonica, Deutsche Telecom and Bell Canada, local telephone companies, long-distance carriers, wireless service providers, cable television operators and broadcasters;
- the private and governmental markets worldwide, which include business customers and governmental agencies that own and operate their own Internet, data, video and voice networks for internal use; and
- other communications equipment vendors, which incorporate our products into their products and systems that they in turn sell into the above markets.

Our customer base is concentrated, with our top ten customers accounting for 45.2%, 42.5% and 45.5% of our net sales in fiscal 2009, 2008 and 2007, respectively. In fiscal 2009, 2008 and 2007, AT&T accounted for approximately 20.4%, 16.0% and 15.4% of our net sales, respectively. Verizon accounted for 17.7%, 16.5%, and 17.8% of our net sales in fiscal 2009, 2008 and 2007, respectively.

Outside the United States, we market our products to communications service providers, owners and operators of private enterprise networks, cable television operators and wireless service providers. Our non-U.S. net sales accounted for approximately 40.7%, 40.8% and 37.0% of our net sales in fiscal 2009, 2008 and 2007, respectively. Our EMEA region (Europe, Middle East and Africa) accounted for the largest percentage of sales outside of North America and represented 17.1%, 20.6% and 19.0% of our net sales in fiscal 2009, 2008 and 2007, respectively.

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

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

**Research and Development**

Given the constant evolution of technology in our industry, we believe our future success depends, in part, on our ability to develop new products so we can continue to meet our customers needs. We continually review and evaluate technological changes affecting our industry and invest in applications-based research and development. The focus of our research and development activities will change over time based on customer needs and industry trends as well as our decisions regarding those areas where we believe we are most likely to achieve success and advance our strategic aims. Our current projects have varying risk and reward profiles. As part of our longer-term strategy, we intend to continue an ongoing program of new product development that combines internal development efforts with acquisitions and strategic alliances within spaces that are closely related to our core businesses.

Our expenses for internal research and development activities were $65.3 million, $83.5 million and $69.6 million in fiscal 2009, 2008 and 2007, respectively, which represented 6.6%, 5.7% and 5.5% of our total revenues in each of those fiscal years. Research and development spending was higher in fiscal 2008 relative to fiscal 2007 and fiscal 2009 due to the addition of research and development activities related to our acquisition of LGC.

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During fiscal 2009, we directed our development activities primarily in the areas of:

- fiber connectivity products for FTTX initiatives and central office applications;
- high-performance structured cables, jacks, plugs, jumpers, frames and panels to enable the use of increasingly higher-performance IP network protocols within private networks; and
- wireless coverage and capacity solutions that enable our customers to optimize their network coverage.

**Competition**

Currently, our primary competitors include:

*For Connectivity products:* 3M, CommScope, Corning, Panduit and Tyco.

*For Network Solutions products:* CommScope, Mobile Access and Powerwave

*For Professional Services:* AFL Telecommunications, Alcatel-Lucent, Mastec and Telamon.

Competition in the communications equipment industry is intense. We and other equipment vendors are competing for the business of fewer and larger customers due to industry consolidation over the past several years. As these customers become larger, they have more buying power and are able to negotiate lower pricing. In addition, there are rapid and extensive technological developments within the communications industry that can and have resulted in significant changes to the spending levels and trends of these large customers, which further drives competition among equipment vendors. Finally, spending in the communications equipment industry has declined in the past year and been relatively flat in the preceding years.

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

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

**Manufacturing and Suppliers**

We manufacture a variety of products that are fabricated, assembled and tested in facilities around the world. In an effort to reduce costs and improve customer service, we generally attempt to manufacture our products in low cost areas located in the region of the world where they will be deployed. We also utilize several outsourced manufacturing companies to manufacture, assemble and test certain of our products. We estimate that products manufactured by these companies accounted for approximately 10% of our aggregate net sales for the Connectivity and Network Solutions segments of our business in fiscal 2009.

We purchase raw materials and component parts from many suppliers located around the world through a global sourcing group. Although some of these items are single-sourced, we have not experienced any significant difficulties to date in obtaining adequate quantities. During fiscal 2009, we realized significant cost reductions in raw materials, primarily due to the softening of commodity markets but also due to our internal efficiency efforts that, among other things, included the implementation of new operating methods designed to uncover increased operational efficiencies. Looking to fiscal 2010, the current trends and the continued global macro-economic challenges, along with shifts in both supply and demand indicate that the cost reductions seen for commodities and other raw materials in fiscal 2009 will not continue and that increases are likely to occur. Circumstances relating to the availability and pricing of materials could change and our ability to mitigate price increases or to take advantage of price decreases in the future will depend upon a variety of factors, such as our purchasing power and the purchasing power of our customers.

**Intellectual Property**

We own a large portfolio of U.S. and foreign patents relating to our products. These patents, in the aggregate, constitute a valuable asset as they allow us to sell unique products and provide protection from our competitors selling similar products. We do not believe, however, that our business is dependent upon any single patent or any particular group of related patents.

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

**Seasonality**

Due to the change in our fiscal year end, our fiscal quarters will now end near the last day of December, March and June and our fiscal year will end on September 30$^{th}$.

Prior to the fiscal year end change, sales in our second quarter that ended near the end of April and our third quarter that ended near the end of July were generally higher than sales in our other two quarters. While the seasonality of our business will remain unchanged on a calendar year basis, we expect the shift in our fiscal year end to impact the quarterly breakdown of our results going forward.

The number of sales days for each of our quarters in fiscal 2009 were: 58 days in the first quarter, 65 days in the second quarter, 63 days in the third quarter and, because of our transition to a September 30$^{th}$ fiscal year end, 42 days in the fourth quarter. The number of sales days for each of our quarters in fiscal 2008 were: 62 days in the first quarter, 65 days in the second quarter, 63 days in the third quarter and 64 days in the fourth quarter.

**Employees**

As of September 30, 2009, we employed approximately 9,050 people worldwide, which is a decrease of approximately 1,550 employees since October 31, 2008. The decrease primarily relates to reductions in force completed throughout fiscal 2009.

**Executive Officers of the Registrant**

Our executive officers are:

| Name | Office | Officer Since | Age |
|---|---|---|---|
| Robert E. Switz | Chairman, President and Chief Executive Officer | 1994 | 63 |
| James G. Mathews | Vice President, Chief Financial Officer | 2005 | 58 |
| Patrick D. O Brien | Vice President, President, Global Connectivity Solutions Business Unit | 2002 | 46 |
| Kimberly S. Hartwell | Vice President, Global Go-To-Market | 2008 | 47 |
| Richard B. Parran, Jr | Vice President, President, Network Solutions Business Unit | 2006 | 53 |
| Christopher Jurasek | Vice President, President, Professional Services Business Unit, Chief Information Officer | 2009 | 43 |
| Steven G. Nemitz | Vice President and Controller | 2007 | 35 |
| Laura N. Owen | Vice President, Chief Administrative Officer | 1999 | 53 |
| Jeffrey D. Pflaum | Vice President, General Counsel and Secretary | 1999 | 50 |

*Mr. Switz* joined ADC in January 1994 as ADC s Chief Financial Officer. He served in this capacity until he was appointed as our Chief Executive Officer in August 2003. He was appointed Chairman of our Board of Directors in July 2008. From 1988 to 1994, Mr. Switz was employed by Burr-Brown Corporation, a manufacturer of precision micro-electronics. His last position at Burr-Brown was as Vice President, Chief Financial Officer and Director, Ventures and Systems Business.

*Mr. Mathews* joined ADC in 2005 as our Vice President and Controller. He served in this capacity until he was appointed as our Chief Financial Officer in April 2007. From 2000 to 2005 Mr. Mathews served as Vice President-Finance and Chief Accounting Officer for Northwest Airlines, which filed for Bankruptcy Reorganization under Chapter 11 in U.S. Bankruptcy Court in September 2005. Prior to joining Northwest Airlines, Mr. Mathews was Chief Financial and Administrative Officer at CARE-USA, the world s largest private relief and development agency. Mr. Mathews also held a variety of positions at Delta Air Lines, including service as Delta s Corporate Controller and Corporate Treasurer.

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

*Ms. Hartwell* joined ADC in July 2004 as Vice President of Sales, National Accounts and became Vice President, Go-To-Market Americas in 2007. She became Vice President, Global Go-To-Market in July 2008. In this role, she leads our sales, marketing, customer service and technical support functions worldwide. Prior to joining ADC, Ms. Hartwell was Vice President of Marquee Accounts at Emerson Electric Corporation, a manufacturer of electrical, electronic and other products for consumer, commercial, communications and industrial markets from June 2003 to June 2004.

*Mr. Parran* joined ADC in November 1995 and served in our business development group. From November 2001 to November 2005 he held the position of Vice President, Business Development. In November 2005, Mr. Parran became the interim leader of our Professional Services Business Unit and in March 2006 he was appointed Vice President, President, Professional Services Business Unit. In January 2009, he was named President of our Network Solutions Business Unit. Prior to joining ADC, Mr. Parran served as a general manager of the business services telecommunications business for Paragon Cable and spent 10 years with Centel in positions of increasing responsibility in corporate development and cable and cellular operations roles.

*Mr. Jurasek* joined ADC in May 2007 as our Chief Information Officer. In this position, he oversees ADC s information systems worldwide. In January 2009, he was also named President of ADC Professional Services. In this role, he leads the company s services business that helps network operators plan, deploy and maintain their networks. Prior to joining ADC, Mr. Jurasek served as Vice President and Chief Information Officer at Rexnord Corporation, a global industrial and aerospace equipment manufacturer, from September 2002 to May 2007. Prior to that, he held a variety of IT management positions at Solo Cup Company, Komatsu Dresser Company, and Dana Corporation.

*Mr. Nemitz* joined ADC in January 2000 as a financial analyst. In September 2002, Mr. Nemitz left ADC to work for Zomax Incorporated, a provider of media and supply chain solutions, where he held the position of Corporate Accounting Manager. In September 2003, Mr. Nemitz returned to ADC as a Corporate Finance Manager. He became the Finance Manager of our Global Connectivity Solutions business unit in October 2004, Americas Region Controller in November 2005 and Assistant Corporate Controller in August 2006. In May 2007, he began service as our Corporate Controller.

*Ms. Owen* joined ADC as Vice President, Human Resources in December 1997. In October 2007 she was named Vice President, Chief Administrative Officer. As a part of this role, she continues to oversee our human resources function. Prior to joining ADC, Ms. Owen was employed by Texas Instruments and Raytheon (which purchased the Defense Systems and Electronics Group of Texas Instruments in 1997), manufacturers of high-technology systems and components. From 1995 to 1997, she served as Vice President of Human Resources for the Defense Systems and

Electronics Group of Texas Instruments.

*Mr. Pflaum* joined ADC in April 1996 as Associate General Counsel and became Vice President, General Counsel and Secretary of ADC in March 1999. Prior to joining ADC, Mr. Pflaum was an attorney with the Minneapolis-based law firm of Popham Haik Schnobrich & Kaufman.

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## Item 1A. *RISK FACTORS*

Our business faces many risks, some of which we describe below. Additional risks of which we currently are unaware or believe to be immaterial may also result in events that could negatively impact our business operations. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition or results of operations may suffer, and the trading price of our common stock could decline.

### Risks Related to Our Business

***Our industry is highly competitive, spending for communication infrastructure products has not grown in recent years and declined last year, and our product and services sales are subject to significant downward pricing and volume pressure.***

Competition in the broadband network infrastructure equipment and services industry is intense. Overall spending for communications infrastructure products declined significantly in fiscal 2009 due to the global recession, had not increased significantly in recent years and is not expected to increase significantly in the next several years.

We have experienced, and anticipate continuing to experience, greater pricing pressures from our customers as well as our competitors, many of whom are headquartered or have operations in low cost regions. In part, this pressure exists because our industry currently is characterized by many vendors pursuing relatively few large customers. As a result, our customers have the ability to exert significant pressure on us with respect to product pricing and other contractual terms. In recent years, a number of our large customers have engaged in business combination transactions. Accordingly, we have fewer large-scale customers, and these customers have even greater scale and buying power.

We believe our ability to compete with other manufacturers of communications equipment products and providers of related services depends primarily on our engineering, manufacturing and marketing skills; the price, quality and reliability of our products; our delivery and service capabilities; and our control of operating expenses.

***Our sales and operations may continue to be impacted adversely by current global economic conditions.***

For more than a year, financial markets globally have experienced extreme disruption. This includes, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. The severity and length of the present disruptions in the financial markets and the global economy are unknown. There can be no assurance that there will not be a further deterioration in financial markets and in business conditions generally. These economic developments have adversely affected our business in a number of ways and will likely continue to adversely impact our business during the foreseeable future. Examples of the impact the global recession has had, and will likely continue to have on our business include:

- There has been, and may continue to be, soft demand for the goods and services our customers provide to their customers. In turn, this has caused, and may continue to cause, our customers to spend less on the products and services we sell.
- Increased competition to complete sales among our competitors has created, and may continue to create, pressure to sell products and services at lower prices or on less advantageous terms than in the past.

***Our gross margins may vary over time, and our level of gross margin may not be sustainable.***

Gross margins among our product groups vary and are subject to fluctuation from quarter to quarter. Many of our newer product offerings, such as our FTTX products, typically have lower gross margins than our legacy products. As these new products increasingly account for a larger percentage of our sales, our gross margins are likely to be impacted negatively. The factors that may impact our gross margins adversely are numerous and include, among others:

- Changes in customer, geographic, or product mix, including the mix of configurations within each product group;
- Introduction of new products, including products with price-performance advantages;
- Our ability to reduce product costs;
- Increases in material or labor costs;

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- Expediting costs incurred to meet customer delivery requirements;
- Excess inventory and inventory carrying charges;
- Changes in shipment volume;
- Changes in component pricing;
- Increased price competition;
- Changes in distribution channels;
- Increased warranty cost;
- Liquidated damages costs relating to customer contractual terms; and
- Our ability to manage the impact of foreign currency exchange rate fluctuations.

***Our operating results are difficult to predict and fluctuate significantly from quarter to quarter.***

Our operating results are difficult to predict and forecast for any particular period due to a variety of factors, including the current global economic downturn and related market uncertainty. The significant fluctuation of our operating results from quarter to quarter is caused by many factors, including, among others:

- the volume and timing of orders from and shipments to our customers;
- the overall level of capital expenditures by our customers;
- work stoppages and other developments affecting the operations of our customers;
- the timing of and our ability to obtain new customer contracts and the timing of revenue recognition;
- the timing of new product and service announcements;
- the availability of products and services;
- market acceptance of new and enhanced versions of our products and services;
- variations in the mix of products and services we sell;
- fluctuations in foreign currency exchange rates which can be significant;
- the location and utilization of our production capacity and employees; and
- the availability and cost of key components of our products.

Our expense levels are based in part on expectations of future revenues. If revenue levels in a particular quarter are lower than expected, our operating results will be affected adversely.

***Our profitability could be impacted negatively if one or more of our key customers substantially reduces orders for our products and/or transitions their purchases towards lower gross margin products.***

Our customer base is concentrated, with our top ten customers accounting for 45.2%, 42.5% and 45.5% of net sales for fiscal 2009, 2008 and 2007, respectively. In fiscal 2009, 2008 and 2007, AT&T accounted for approximately 20.4%, 16.0% and 15.4% of our sales, respectively. Verizon accounted for 17.7%, 16.5% and 17.8% of our net sales in fiscal 2009, 2008 and 2007, respectively.

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If a customer slows-down, delays, or completes a large project or if we lose a significant customer for any reason, including consolidation among our major customers, our sales and gross profit will be impacted negatively. Also, in the case of products for which we believe potential revenue growth is the greatest, our sales remain highly concentrated with the major communications service providers. For example, we rely on Verizon for a large percentage of our sales of FTTX products. The loss of sales due to a decrease in orders from a key customer could require us to exit a particular business or product line or record related impairment or restructuring charges.

Gross margins vary among our product groups and a shift in our customers purchases toward a product mix (*i.e.*, the amount of each type of product we sell in a particular period) with lower margins could result in a reduction in our profitability.

***Our market is subject to rapid technological change and, to compete effectively, we must continually introduce new products that achieve market acceptance.***

The communications equipment industry is characterized by rapid technological changes, evolving industry standards, changing market conditions and frequent new product and service introductions and enhancements. The introduction of products using new technologies or the adoption of new industry standards can make our existing products, or products under development, obsolete or unmarketable. For example, FTTX product sales initiatives may impact sales of our non-fiber products negatively. In order to remain competitive and increase sales, we will need to adapt to these rapidly changing technologies, enhance our existing products and introduce new products to address the changing demands of our customers.

We may not predict technological trends or the success of new products in the communications equipment market accurately. New product development often requires long-term forecasting of market trends, development and implementation of new technologies and processes and substantial capital commitments. We do not know whether other new products and services we develop will gain market acceptance or result in profitable sales.

Many companies with whom we may compete have greater engineering and product development resources than we have. Although we expect to continue to invest substantial resources in product development activities, our efforts to achieve and maintain profitability will require us to be selective and focused with our research and development expenditures. If we fail to anticipate or respond in a cost-effective and timely manner to technological developments, changes in industry standards or customer requirements, or if we experience any significant delays in product development or introduction, our business, operating results and financial condition could be affected adversely.

***Our cost reduction initiatives may not result in anticipated savings or more efficient operations and may be disruptive to our operations.***

Over the past several years, we have implemented, and are continuing to implement, significant cost reduction measures. These measures have been taken in an effort to improve our levels of profitability. We have incurred significant restructuring and impairment charges in connection with these cost reduction efforts. If these measures are not fully completed or are not completed in a timely fashion, we may not realize their full potential benefit.

In addition, the efforts to cut costs may not generate the savings and improvements in our operating margins and profitability we anticipate and such efforts may be disruptive to our operations. For example, cost savings measures may yield unanticipated consequences, such as attrition beyond planned reductions in force or increased difficulties in our day-to-day operations, and may adversely affect employee morale. Although we believe it is necessary to reduce the cost of our operations to improve our performance, these initiatives may preclude us from making potentially significant expenditures that could improve our product offerings and competitiveness over the longer term.

***We are becoming increasingly dependent on specific network expansion projects undertaken by our customers, which are subject to intense competition and result in sales volatility.***

Our business increasingly is focused on the sale of products, including our FTTX products and wireless coverage and capacity solutions, to support customer initiatives to expand broadband and coverage capabilities in their networks. These products increasingly have been deployed by our customers outside their central offices in connection with specific capital projects to increase network capabilities. There can be no assurance that these customer initiatives will continue going forward or that we will continue to be awarded the work we have historically been awarded. In addition, there can be no assurance that as significant projects are completed, new projects will be available to replace them.

Because of these project-specific purchases by our customers, the short-term demand for our products can fluctuate significantly and our ability to forecast sales accurately from quarter to quarter has diminished substantially. This fluctuation can be further affected by the long sales cycles necessary to obtain contracts to supply equipment for these projects. These long sales cycles may result in significant effort expended with no resulting sales or sales that are not made in the anticipated quarter or year.

In addition, competition among suppliers with respect to these capital projects can be intense, particularly because these projects often utilize new products that were not previously used in customers networks. We cannot give any assurance that these capital projects will continue or that our products will be selected for these equipment deployments.

***Further consolidation among our customers may result in the loss of some customers and may reduce revenue during the pendency of business combinations and related integration activities.***

Consolidation among our customers may continue in order for them to increase market share and achieve greater economies of scale. Consolidation has impacted our business as our customers focus on completing business combinations and integrating their operations. In certain instances, customers integrating large-scale acquisitions have reduced their purchases of network equipment during the integration period. For example, following the merger of SBC Communications with AT&T and the merger of AT&T with BellSouth, the combined companies initially deferred spending on certain network equipment purchases, which resulted in lower product sales by ADC to these companies for a period of time.

The impact of significant mergers among our customers on our business is likely to be unclear until sometime after such transactions are completed. After a consolidation occurs, a customer may choose to reduce the number of vendors from which it purchases equipment and may choose one of our competitors as its preferred vendor. There can be no assurance that we will continue to supply equipment to the surviving communications service provider after a business combination is completed.

***Our Professional Services business is exposed to risks associated with a highly concentrated customer base.***

Our Professional Services business is heavily dependent on sales to AT&T. If, over the long-term, AT&T reduces the demand for our services, we may not be successful in finding new customers to replace the lost sales for a period of time. Therefore, sales by our Professional Services business could decline substantially and have an adverse effect on our business and operating results.

***Possible consolidation among our competitors could result in a loss of sales and profitability and negatively impact our competitive position.***

In recent years, a number of our competitors have engaged in business combination transactions. We may see continued consolidation among communication equipment vendors and some of the transactions may be significant. These business combinations may result in our competitors becoming financially stronger and obtaining broader product portfolios than us. As a result, consolidation could increase the resources of our competitors and provide them with competitive advantages. In turn this could adversely impact our product sales and our profitability.

***We may not successfully close strategic acquisitions and, if these acquisitions are completed, we may have difficulty integrating the acquired businesses with our existing operations.***

In the future, we may acquire companies and/or product lines that we believe are aligned with our strategic focus. The significant effort and management attention invested in a strategic acquisition may not result in a completed transaction.

The impact of future acquisitions on our business, operating results and financial condition are not known at this time. In the case of businesses we may acquire in the future, we may have difficulty assimilating these businesses and their products, services, technologies and personnel into our operations. These difficulties could disrupt our ongoing business, distract our management and workforce, increase our expenses and adversely affect our operating results and financial condition. We may also acquire unanticipated liabilities. Also, we may not be able to retain key management and other critical employees after an acquisition. In addition to these risks, we may not realize all of the anticipated benefits of these acquisitions.

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***If we seek to secure other financing we may not be able to obtain it on acceptable terms and, given the current market conditions, obtaining financing on any terms may not be possible.***

We believe our current cash and cash equivalents as well as future cash generated from operations provide adequate resources to fund ongoing operating requirements. If our estimates are incorrect and we are unable to generate sufficient cash flows from operations, we may need to raise new financing. In addition, if the cost of our strategic acquisition opportunities exceed our existing resources, we may be required to seek additional capital. If we determine it is necessary to seek other additional funding for any reason, we may not be able to obtain such funding or, if such funding is available, to obtain it on acceptable terms. This possibility is heightened by the recession and its effects on the credit market.

If we are unable to obtain capital on commercially reasonable terms it could:

- reduce funds available to us for purposes such as working capital, capital expenditures, research and development, strategic acquisitions and other general corporate purposes;