ADC TELECOMMUNICATIONS INC
Form 10-K
January 15, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2003.

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________.

Commission File No. 0-1424

ADC Telecommunications, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**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: None

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

Common Stock, $.20 par value
Preferred Stock Purchase Rights

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. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. [X]

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). [X] Yes [ ] No

The aggregate market value of voting stock held by non-affiliates of the registrant based on the last sale price of such stock as reported by the NASDAQ Stock Market on January 7, 2004, was $2,767,428,507.

The number of shares outstanding of the registrant s common stock, $0.20 par value, as of January 7, 2004, was 806,134,096.

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the information required by Part III of this Form 10-K is incorporated by reference from portions of our definitive proxy statement for our 2004 Annual Meeting of Shareowners to be filed with the Securities and Exchange Commission on or before January 31, 2004.

As used in this report, fiscal 2001, fiscal 2002, fiscal 2003 and fiscal 2004 refer to our fiscal years ended or ending October 31, 2001, 2002, 2003 and 2004, respectively.

PART I

Item 1. BUSINESS

ADC Telecommunications, Inc. was incorporated in Minnesota in 1953 as Magnetic Controls Company. We adopted our current name in 1985. Our headquarters is located at 13625 Technology Drive in Eden Prairie, Minnesota. Our corporate website address is www.adc.com. We make our annual report 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 on our website as soon as reasonably practicable after such reports are filed or furnished to the Securities and Exchange Commission. Information on our website is not deemed incorporated by reference in this Form 10-K.

We are a leading global supplier of broadband network equipment, software and systems integration services that enable communications service providers to deliver high-speed Internet, data, video and voice services to consumers and businesses worldwide. Telephone companies, cable television operators, Internet and data service providers, wireless service providers and other communications service providers are building and upgrading the broadband network infrastructure required to offer high-speed Internet access as well as data, video, telephony and other interactive multimedia services. Our product offerings and development efforts are focused on increasing the speed and efficiency of the last mile/kilometer portion of broadband communications networks, and our product and service offerings help connect communications service providers offices to businesses and end users homes as well as to wireless communications devices.

Our customers include local and long-distance telephone companies, cable television operators, wireless service providers, new competitive service providers, broadcasters, governments, businesses, system integrators and communications equipment manufacturers and distributors. We offer broadband connectivity components and systems, broadband access and network equipment, software and systems integration services to our customers through the following two segments of product and service offerings:

- Broadband Infrastructure and Access; and
- Integrated Solutions.

Our *Broadband Infrastructure and Access* business provides network infrastructure products for wireline, cable and wireless communications network applications; Digital Subscriber Line (DSL) offerings for the telecommunications industry; and Internet Protocol (IP)-based offerings for the cable industry. These products consist of:

connectivity systems and components that provide the infrastructure to wireline, cable and wireless service providers to connect Internet, data, video and voice services to the network over copper, coaxial and fiber-optic cables, and

access systems used by wireline, cable and wireless service providers to deliver high-speed Internet, data and voice services to consumers and businesses in the last mile/kilometer of communications networks.

Our *Integrated Solutions* business provides system integration services and operations support system (OSS) software for broadband, multiservice communications over wireline and wireless networks. Systems integration services are used to design, equip and build communications networks that deliver Internet, data, video and voice services to consumers and businesses. OSS software includes communications billing, customer management, network performance and service-level assurance software used by service providers to operate communications networks.

Industry Background

We believe that broadband, multiservice communications networks help to meet the information needs of businesses and consumers around the world. The rate of growth and utilization of the Internet is a key driver of the need for broadband network infrastructure. We believe consumers increasingly find dial-up modem speeds unacceptable for current Internet and Web-based applications. Further, we believe the growing popularity of applications such as digital video and audio programs, wireless Internet access, video conferencing from personal computers, video e-mail, video on demand, interactive entertainment

and gaming, distance learning, telemedicine and high-speed imaging will drive even more people to use broadband communications services. We believe that the global deregulation of communications markets has the potential to transform traditional communications service providers into integrated communications providers. Traditional communications service providers offer only a limited selection of Internet, data, video or voice services, each on a separate network connection and a separate customer bill. Integrated communications providers operate broadband, multiservice networks that offer faster, more cost-effective and integrated Internet, data, video and voice services over a single high-speed network connection while sending only one bill for all of the services the customer uses. Communications service providers have the ability to compete for customers by offering bundles of different communications services over cost-effective networks. As a result of competition among communications service providers to obtain and retain customers with bundled services, we believe there is a large potential global market for broadband access and network equipment, software and systems integration services to build and upgrade broadband, multiservice networks.

Strategy

Our strategy is to capitalize on selected opportunities in the global communications infrastructure market created by the deployment of broadband, multiservice networks. Communications service providers intend to serve their consumer and business customers with broadband, multiservice networks that offer faster, more cost-effective and integrated Internet, data, video and voice services. Our products and services address key areas of the communications network infrastructure. They are used to design, build and upgrade networks, connect and access networks, transport Internet, data, video and voice signals over communications service networks, and provide OSS software to operate communications networks. As a result, our product and service offerings address many of the needs of a customer base that includes local and long-distance telephone companies, cable television operators, wireless service providers, Internet and data service providers, other communications service providers, broadcasters, enterprises, governments, system integrators and communications equipment manufacturers and distributors.

We restructured our business over the last three fiscal years in response to a significant decline in capital spending by our customers. We may engage in additional restructuring to gain greater focus in key areas of our business. Through this restructuring, we are seeking to better position ourselves for profitable growth in the market segments where we believe we have a sustainable competitive advantage. We believe the area where we have such an advantage is the communications infrastructure market, with an emphasis on the last mile/kilometer of the network. We serve this market primarily by our connectivity, wireline and wireless infrastructure products and systems integration services, all of which we provide to our wireline, wireless and cable service provider customers.

In our restructured company, key components of our long-term strategy include:

growing sales through market share gains, new product introductions and expansion into adjacent and related markets;

continuing to develop new sales channels and market opportunities through the use of partnerships and alliances with other equipment vendors, distributors, resellers and systems integrators;

keeping our cost structure low to compete effectively in a more cost conscious marketplace; and

adding to our product portfolio by making strategic acquisitions and improving profitability by divesting or de-emphasizing unprofitable or low-growth products.

Growing Sales. In the current environment of reduced capital spending by communication service providers, we believe that we must gain market share in order to grow our business. We intend to increase our market share by offering a compelling value proposition through a combination of product functionality, quality, price-competitiveness and world-class customer service, with particular emphasis on helping our customers lower their overall cost of providing communication services to end user customers. We also intend to develop and introduce new products that have applications in our current markets as well as adjacent markets.

Development of New Sales Channels. We believe that we can effectively partner with other companies serving the public and private communication network markets to offer more complete solutions to

customer needs. Our connectivity products in particular are conducive to being incorporated by other equipment vendors into a systems-level solution.

Monitoring Low Cost Structure. We intend to continue our efforts to lower our overall cost structure to become or remain a low-cost industry leader in selected product areas, while also maintaining our reputation for high-quality products and services and world-class customer service.

Product Portfolio Changes. We are also searching for appropriate acquisition opportunities to strengthen our product portfolio. Our efforts are focused on opportunities within our existing markets, as well as opportunities in adjacent or related markets. As we have done over the last three fiscal years, we also intend to evaluate and monitor our existing product lines for growth and profitability prospects and, when appropriate, deemphasize or divest product lines that do not meet our criteria.

Our ability to implement our strategy effectively is subject to numerous uncertainties, the most significant of which are described in the section captioned Risk Factors in this Form 10-K. We cannot assure you that our efforts will be successful.

Product and Service Offering Groups

Our Broadband Infrastructure and Access business focuses on broadband connectivity products for a variety of communications network applications, DSL offerings for the telecommunications industry and IP-based offerings for the cable industry. Broadband Infrastructure and Access products accounted for approximately 63%, 68% and 75% of our net sales in fiscal 2003, 2002 and 2001, respectively.

Our Integrated Solutions business focuses on systems integration services and OSS software. Integrated Solutions products and services accounted for approximately 37%, 32% and 25% of our net sales in fiscal 2003, 2002 and 2001, respectively. The primary products and services offered by each of these segments are described below.

See Note 14 to the Consolidated Financial Statements in Item 8 of this Form 10-K for financial information regarding these two business segments as well as information regarding our assets and sales by geographic region.

Broadband Infrastructure and Access

Our Broadband Infrastructure and Access products for public network providers are located primarily in service provider serving offices and networks, including telephone company central offices and networks, cable television company headend offices and networks, and wireless company global switching centers, networks and tower sites. All of these facilities contain the equipment used in switching and transmitting incoming and outgoing communications channels. Portions of our broadband transmission systems are located in the public network outside the serving offices and on end-users premises. Our enterprise private and governmental network customers generally purchase our products for installation in the networks located on their premises. Broadband Infrastructure and Access products consist of the following general product groupings:

Broadband Connectivity Systems and Components

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

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

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

equipment within the serving office. Our fiber distribution panels and frames are designed with special consideration of fiber-optic properties.

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

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

Modular Fiber-Optic Routing Systems. Our FiberGuide® system is a modular routing system that provides a segregated, protected method of storing and routing fiber-optic patch cords and cables within a service provider s serving office.

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

Wireless Systems and Components

Our wireless systems and components help amplify and extend the coverage of wireless communications networks. These products include:

Wireless Infrastructure Equipment and Subsystems. We develop, manufacture and market SMARTop® and ClearGain® families of tower-top amplifier products, which are distributed globally for all major air interfaces. These products are sold primarily to wireless carriers and original equipment manufacturers (OEMs).

Coverage Products. Our Digivance family of wireless systems products include solutions that address coverage and capacity challenges for wireless operators. Our solutions address a range of applications, from base station hotels that serve significant segments of a metropolitan area to products that provide complete coverage for a single building or campus. The Digivance family is the next-generation replacement of our existing CityCell® product offering.

Access Systems

Our access systems operate between service providers serving offices and the last mile/kilometer portion of communications networks. These products include:

Carrier-Class Intelligent Loop Access Platforms. Our Soneplex® and HiGain® products enable communications service providers to deliver T1/E1-based services over copper or optical facilities in the last mile/kilometer of communications networks. Soneplex® and HiGain® products integrate functions and capabilities that help reduce the capital and operating costs of delivering T1/E1-based services. Our PG-Flex® product is a micro digital loop carrier that is used by telecommunications service providers to increase the carrying capacity of common voice-grade copper wire in the last mile/kilometer of communications networks. This system is capable of conveying both regular voice service and asymmetrical digital subscriber line (ADSL) signals.

IP Cable Products. We make a variety of access products for the cable industry, including our Cuda Cable Modem Termination System (CMTS) that enables cable operators to offer high-speed Internet access via industry standard cable modem services. A CMTS is used to manage the two-way flow of traffic over a cable system, and will also support the provision of voice services (i.e., local telephone service) in conjunction with video and data services.

Integrated Solutions

Integrated Solutions products and services consist of systems integration services and OSS software for broadband, multiservice communications over wireline and wireless networks. Systems integration services are used to design, equip and build communications networks that deliver Internet, data, video

and voice services to consumers and businesses. OSS software includes communications billing, customer management, network performance and service-level assurance software used by service providers to operate communications networks.

Systems Integration Services

Our systems integration services are offered in North America and Europe and provide integration solutions for customers that deliver voice, video and data services over wireless and wireline networks. Our systems integration services support both the multi-vendor and multi-service delivery requirements of our customers. These services support customers throughout the technology life-cycle, from network design, build-out, turn-up and testing to ongoing maintenance and training, and are utilized by our customers in creating and maintaining intra-office, inter-office, or coast-to-coast networks.

OSS Solutions

These products and services include:

Billing and Customer Management Software. Our Singl.eView product provides real time billing, customer management and enhanced Web solutions for local, Internet, data, long-distance, wireless, cable and content markets. In addition to the base software product, we offer professional services that enable a customer to customize the installation to its needs. These products and services are designed to enable communications service providers to bring new service offerings to market quickly, and to bill accurately and reliably for multiple services on one convergent invoice. We believe that elements of our Singl.eView product also have applications outside of our traditional communication service provider market focus, particularly with media and content companies who have a need for transaction-based billing systems.

Network and Service Management Software. We develop and market network performance management, service quality management and service level agreement software under the Metrica® brand name. These products are designed to enable communications service providers to monitor and to assure quality of service to their customers.

Sales and Marketing

We sell our products to customers in four primary markets:

- the U.S. public communications network market, which includes the four major U.S. incumbent local exchange carriers (Verizon, BellSouth, SBC and Qwest), other local telephone companies, long-distance carriers, wireless service providers and cable television operators;

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

- the public and private network markets outside of the United States; and to other communications equipment vendors, who incorporate our products into products and systems that they in turn sell into the three markets listed above.

The majority of our sales are made to telecommunications service providers, and the four major U.S. incumbent local exchange carriers combined accounted for approximately 25.7%, 28.2% and 32.0% of our revenues during fiscal 2003, 2002 and 2001, respectively. No single customer accounted for more than 10% of our sales in fiscal 2003 or 2001. Verizon Communications, Inc., accounted for 10.6% of our sales in fiscal 2002. However, our customer base is relatively concentrated with our top ten customers accounting for 44.5%, 47.2% and 51.7% of our net sales in fiscal 2003, 2002 and 2001, respectively. Due to the generally short lead times between receipt of a customer order and the time we ship the product, our committed backlog of orders is not a material portion of our annual revenues, and thus is not a meaningful indicator of future revenues.

We market our products outside the United States primarily to telephone operating companies, cable television operators and wireless service providers for public communications networks located in Africa, Asia, Australia, Canada, Europe, Latin America, the Middle East and the Pacific. Our non-U.S. net sales

accounted for approximately 36.3%, 27.1% and 28.8% of our net sales in fiscal 2003, 2002 and 2001, respectively, and are not concentrated in any one country.

A majority of our sales are made by our direct sales force. We maintain sales offices throughout the United States and in Asia, Australia, Canada, Europe, Latin America, the Middle East and the Pacific. 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 outside the United States.

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

Research and Development

We believe that our future success depends, in part, on our ability to adapt to the rapidly changing communications environment, to maintain our significant expertise in core technologies and to continue to meet and anticipate our customers needs. We continually review and evaluate technological changes affecting the communications market and invest in applications-based research and development. The focus of our research and development activities will change over time based on particular customer needs and industry trends as well as our decisions with respect to which areas we are most likely to achieve success. As part of our long-term strategy, we intend to continue an ongoing program of new product development that combines internal development efforts with acquisitions and strategic alliances relating to new products and technologies from sources outside ADC. Our expenses relating to internal research and development activities were $108.6 million, $182.8 million and $287.3 million in fiscal 2003, 2002 and 2001, respectively.

During fiscal 2003, our research and development activities were primarily directed at the following areas:

- developing connectivity products to enable the deployment of fiber optic lines directly from the service providers local office to or near the communication service customer (known as the FTTX initiative);
- developing line-powered solutions for the deployment of wireless fidelity (Wi-Fi) internet access service;
- connectivity products that enable the use of Ethernet protocols within the public communications network, which is used by our customers to more effectively deploy data services over their historic voice-based networks;
- development of software-based products for wireless networks that will enable wireless carriers to replace certain physical network elements with software solutions; and

further development of our Cuda cable modem termination system to add expanded functionality and meet next-generation industry certification levels.

New product development often requires long-term forecasting of market trends, the development and implementation of new processes and technologies and a substantial capital commitment. Due to the uncertainties inherent in each of these elements, there can be no assurance that any new products we develop will achieve market acceptance or be profitable. In addition, we intend to be more focused and selective in our research and development efforts as we balance these efforts with our efforts to achieve sustained profitability.

Competition

Competition in the communications equipment industry is intense, particularly in light of reduced spending levels by our customers. Many of our competitors have more extensive engineering, manufacturing, marketing, financial and personnel resources than we have. In addition, rapid technological

developments within the communications industry have resulted in frequent changes among our group of competitors. Currently, our primary competitors include:

For Broadband Infrastructure and Access products: ADTRAN, Andrew, Arris Group, Avaya, Cisco Systems, Corning, ECI Telecom, Furukawa, Krone, Lucent Technologies, Motorola, Telect and Terayon.

For Integrated Solutions products and services: Alcoa Fujikura, Agilent, Amdocs, Bechtel, Convergys, Lucent Technologies, Portal Software, SPIE and TTI.

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

Maintaining 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; and

our delivery and service capabilities.

With the current low level of spending by our customers, we have experienced increased pricing pressures from competitors, as well as general pricing pressure from our customers as part of their cost reduction efforts. Price will likely continue to be a major factor in the markets in which we compete.

We believe that technological change, the increasing addition of Internet, data, video and voice services to integrated broadband, multimedia networks, continuing regulatory changes and industry consolidation will continue to cause rapid evolution in the competitive environment of the communications equipment market. At this time it is difficult to predict the full scope and nature of this evolution. We cannot assure you that we will be able to compete successfully with existing or new competitors. Competitive pressures may materially and adversely affect our business, operating results or financial condition.

Manufacturing and Suppliers

We manufacture a variety of products that are fabricated, assembled and tested in our own facilities in the United States. In an effort to reduce costs and improve customer service, we also utilize production facilities outside the United States in addition to sourcing key components and raw materials outside the United States. The manufacturing process for our electronic products consists primarily of assembly and testing of electronic systems built from fabricated parts, printed circuit boards and electronic components. The manufacturing process for our connectivity products is completely vertically integrated and consists primarily of fabrication of jacks, plugs and other basic components from raw materials, assembly of components and testing. Our sheet metal, plastic molding, stamping and machining capabilities permit us to configure components to customer specifications, provide competitive lead times and control production costs. We also utilize several outsource manufacturing companies to manufacture, assemble and test certain of our products within our Broadband Infrastructure and Access segment. We estimate that products obtained from outsourced manufacturers accounted for approximately 41% of our net sales for the Broadband Infrastructure and Access segment in fiscal 2003.

We purchase raw materials and component parts from many suppliers. These purchases consist primarily of copper wire, optical fiber, steel, brass, nickel-steel alloys, gold, plastics, printed circuit boards, solid state components, discrete electronic components and similar items. Although many of these items are single-sourced, we have experienced no significant difficulties to date in obtaining adequate quantities. These circumstances could change, however, and we cannot guarantee that sufficient quantities or quality of raw materials and component parts will be as readily available in the future or, if available, that we will be able to obtain them at favorable prices.

Proprietary Rights

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

We have registered the initials ADC alone and in conjunction with specific designs as trademarks in the United States and various foreign countries.

Employees

As of October 31, 2003, we employed approximately 5,700 people. During the restructuring of our business in fiscal 2003, we reduced our number of employees by approximately 1,900 through involuntary workforce reductions and attrition. We consider relations with our employees to be good.

Executive Officers of the Registrant

Our executive officers are:

Name	Office	Officer Since	Age
Robert E. Switz	President and Chief Executive Officer	1994	56
Gokul V. Hemmady	Vice President, Chief Financial Officer	1997	42
Michael K. Pratt	Vice President, President, Wireline Business Unit	2002	49
Hilton M. Nicholson	Vice President, President, IP Cable Business Unit	2002	45
Patrick D. O Brien	Vice President, President, Connectivity Business Unit	2002	40
Jo Anne M. Anderson	Vice President, President, Systems Integration Business Unit and Software Systems Business Unit	2001	46
Jeffrey A. Quiram	Vice President, President, Wireless Business Unit	2001	43
Jeffrey D. Pflaum	Vice President, General Counsel and Secretary	1999	44
Laura N. Owen	Vice President, Human Resources	1999	47
Mary E. Quay	Vice President, Worldwide Operations	2002	51

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

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

Mr. Pratt joined ADC in June 2002, as President of ADC s Wireline Business Unit. Prior to joining ADC, Mr. Pratt served in a variety of positions, including Vice President and General Manager of the Access Systems Division of RELTEC Corporation, from 1996 to 1999. In March 1999, RELTEC Corporation was acquired by Marconi, Inc., a subsidiary of Marconi plc, a global telecommunications equipment and solutions company. Mr. Pratt continued to serve as the Vice President and General Manager of this business following this acquisition, until he was promoted to Executive Vice President of Marconi, Inc. in July 2000, a position he held until joining ADC.

Mr. Nicholson joined ADC in July 2002, as President of ADC s IP Cable Business Unit. Prior to that, Mr. Nicholson served in a variety of positions with Lucent Technologies, Inc., a provider of communications networks for the global communications services market, from 1996 to 2002, including most recently as the Vice President and General Manager of Lucent s Core Switching and Routing Division.

Mr. Patrick O Brien joined ADC in 1993 and was named President of ADC s Connectivity Business Unit in December 2002. Prior to joining ADC, Mr. O Brien was employed by Contel Telephone for six years in a network planning capacity.

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Ms. Anderson joined ADC in 1983 and was named President of ADC s Systems Integration Business Unit in November 2000, and President of ADC s Software Systems Division in November 2003. Prior to that Ms. Anderson served as Vice President of ADC s Systems Integration Business from May 1998 to November 2000, after having served as ADC s Vice President, Global Customer Service.

Mr. Quiram joined ADC in September 1991. Prior to being named the President of ADC s Wireless Business Unit in December 2002, Mr. Quiram served as President of ADC s Connectivity Business Unit from October 2001 to December 2002, President of ADC s Broadband Infrastructure Division from April 2001 to October 2001 and Vice President and General Manager of the Wireless Division of ADC s Broadband Connectivity Group from May 1999 to April 2001. Prior to joining ADC, Mr. Quiram worked for eight years at U S WEST, a communications service provider.

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

Ms. Owen joined ADC as Vice President, Human Resources in December 1997. 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.

Ms. Quay joined ADC in 1977 and has served in a variety of positions over her 26-year career at ADC. During the last five years, Ms. Quay served as Vice President of Manufacturing/Operations, and during 2002, Ms. Quay was named as Vice President, Worldwide Operations.

Risk Factors

The foregoing discussion and the discussion contained in Item 7 of this Form 10-K contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent our expectations or beliefs concerning future events, including any statements regarding:

- future sales, profit percentages, realization of deferred tax assets, earnings per share or other results of operations;
- the continuation of historical trends;
- the sufficiency of our cash balances and cash generated from operating and financing activities for our future liquidity and capital resource needs;

the effect of legal and regulatory developments; and

the economy in general or the future of the communications equipment and communications services industries on our business.

We disclaim any intention or obligation to update or revise any forward-looking statements we make in this report due to new information or future events. In addition, we caution that any forward-looking statements made by us in this report or in other announcements made by us are further qualified by important risk factors that could cause actual results to differ materially from those in the forward-looking statements. Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following listing of risk factors actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. The risks described below may be amended, supplemented or superceded from time to time by other reports we file with the SEC in the future. These risks include, without limitation:

Risks Related to Our Business

Our operating results have been adversely affected by the significant downturn in the communications equipment industry and the slowdown in the United States economy.

Our operating results during fiscal 2003, 2002 and 2001 have been significantly impacted by the substantial downturn in the telecommunications equipment industry. In this market environment, many of our customers reduced their equipment purchases and have deferred capital spending. As a result, our revenues have decreased in each of the last three fiscal years. A majority of our revenues are derived from telecommunication service providers. These customers have greatly reduced their spending on communications equipment. Our business has also been negatively impacted by reduced or deferred capital spending by our cable industry customers. Moreover, some of our customers have experienced serious financial difficulties, which in certain cases has resulted in bankruptcy filings or cessation of operations.

The general slowdown in the United States economy in the last three years has also negatively impacted, and may continue to adversely affect, our business and operating results. We expect any recovery in the communications market to lag behind a general economic recovery. Our customers are dependent on the level of end user demand for communication services, and they are likely to continue to defer significant network expansions until there is greater demand for telephone, internet and data services. If general economic conditions in the United States and globally do not improve, or if there is a worsening of the United States or global economy, we may continue to experience material adverse effects on our business, financial condition and results of operations.

We incurred significant net losses in fiscal 2003, 2002 and 2001. No assurance can be given that we will achieve operating profitability in the future.

We incurred net losses of $76.7 million, $1.15 billion and $1.29 billion in fiscal 2003, 2002 and 2001, respectively. Although we reported net income in the fourth quarter of fiscal 2003, it is not clear that we will be able to achieve revenue and gross margin levels needed to sustain profitability.

When the significant reduction in communications equipment spending became evident in fiscal 2001, we began implementing a restructuring plan to reduce operating expenses and capital expenditures and to narrow the strategic focus of our business. As a result in large part of this structuring plan, we incurred impairment and restructuring charges of $57.4 million, $567.9 million and $697.1 million in fiscal years 2003, 2002 and 2001, respectively. Although most of the restructuring plan initiatives have been implemented, we may be required to further restructure our business if we do not achieve profitability.

As a result of the restructuring plan, we have significantly reduced expenses and lowered our quarterly revenue break-even point. However, we may not be able to achieve anticipated revenue levels in future quarters or further reduce our expenses if revenue shortfalls occur. As a result, no assurance can be given that we will achieve operating profitability.

Shifts in our product mix may result in declines in gross profit, as a percentage of net sales.

Our gross profit, as a percentage of net sales, varies among our product groups. Our overall gross profit, as a percentage of net sales, has fluctuated from quarter to quarter as a result of shifts in product mix (that is, how much of each product type we sell in any particular quarter), the introduction of new products, decreases in average selling prices and our ability to reduce manufacturing costs. We expect such fluctuation in gross profit to continue in the future.

Consolidation among our customers could result in our losing a customer or experiencing a slowdown as integration takes place.

We believe it is likely that there will be increased consolidation among our customers in order for them to increase market share, diversify product portfolios and achieve greater economies of scale. Consolidation is likely to impact our business as our customers focus on integrating their operations and choosing their equipment vendors. After a consolidation occurs, there can be no assurance that we will

continue to supply equipment to the surviving communications service provider. For example, the acquisition of AT&T Broadband, which was a customer of our IP Cable products, by Comcast Corporation during fiscal 2003 resulted in a substantial decline in the net sales of our IP Cable products and Comcast has informed us that we have not been approved as a continuing supplier of certain IP Cable products.

Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products.

Our customer base is relatively concentrated with our top ten customers accounting for 44.5%, 47.2% and 51.7% of net sales for fiscal years 2003, 2002 and 2001, respectively. If we lose a significant customer, our sales and gross margins would be negatively impacted. In addition, the loss of sales may require us to record additional impairment and restructuring charges or exit a particular business or product line.

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 change. In our industry, we also face evolving industry standards, changing market conditions and frequent new product and service introductions and enhancements by our competitors. 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. In order to grow and remain competitive, we will need to adapt to these rapidly changing technologies, to enhance our existing solutions and to introduce new solutions to address our customers changing demands.

We cannot accurately predict technological trends or new products in the telecommunications equipment market. New product development often requires long-term forecasting of market trends, development and implementation of new technologies and processes, and a substantial capital commitment. In addition, we do not know whether our products and services will meet with market acceptance or be profitable. Many of our competitors, particularly in our software and IP Cable businesses, have greater engineering and product development resources than us. 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 more 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 have any significant delays in product development or introduction, our business, operating results and financial condition could be materially adversely affected.

We may make additional strategic changes to our product portfolio but our strategic changes and restructuring programs may not yield the benefits that we expect.

During fiscal 2003, we announced a new product portfolio review initiative to focus on opportunities to enhance shareowner value in the difficult and changing communications equipment industry. We intend to focus on product markets in which we are, or believe we can become, one of the leading suppliers. As part of the current product portfolio review, we may make strategic acquisitions and may divest current product lines.

The impact of potential changes to our product portfolio and the effect of such changes on our business, operating results and financial condition, are unknown at this time. If we determine to acquire other businesses in our areas of strategic focus, 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. In addition to these integration risks, if we acquire new businesses, we may not realize all of the anticipated benefits of these acquisitions, and we may not be able to retain key management, technical and sales personnel after an acquisition. Divestitures or elimination of existing businesses or product lines could also have disruptive effects and may cause us to incur material expenses.

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If we seek to secure additional financing, we may not be able to obtain it. Also, if we are able to secure additional financing, our shareowners may experience dilution of their ownership interest or we may be subject to limitations on our operations.

We currently anticipate that our available cash resources, which include existing cash and cash equivalents, will be sufficient to meet our anticipated needs for working capital and capital expenditures for the remainder of fiscal 2004 and, if we are able to maintain breakeven or positive cash flow from operations, for the next several years. If our estimates are incorrect and we are unable to generate sufficient cash flows from operations, we may need to raise additional funds. In addition, if one or more of our strategic acquisition opportunities exceeds our existing resources, we may be required to seek additional capital. We do not currently have any available lines of credit or other credit facilities, and we are not certain that we can obtain commercial bank financing or, if it is available, whether it will be on acceptable terms. If we raise additional funds through the issuance of equity or equity-related securities, our shareowners may experience dilution of their ownership interests, and the newly issued securities may have rights superior to those of common stock. See Risks Related to our Common Stock below. If we raise additional funds by issuing debt, we may be subject to restrictive covenants that could limit our operating flexibility.

Our industry is highly competitive and subject to pricing pressure.

Competition in the communications equipment industry is intense. We believe our success in competing with other manufacturers of communications equipment products and services will depend 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. We have experienced and anticipate experiencing increasing pricing pressures from current and future competitors as well as general pricing pressure from our customers as part of their cost containment efforts. Our industry is currently characterized by many vendors pursuing relatively few and very large customers, which provides our customers with the ability to exert significant pressure on their suppliers. Many of our competitors have more extensive engineering, manufacturing, marketing, financial and personnel resources than we do. As a result, other competitors may be able to respond more quickly to new or emerging technologies, changes in customer requirements or offer more aggressive price reductions.

Possible consolidation among our competitors could result in a loss of sales.

We expect to see continued consolidation among communication equipment vendors. This can result in our competitors becoming financially stronger and obtaining broader product portfolios. It is possible that such consolidation can lead to a loss of sales for us as our competitors increase their resources through consolidation.

Our operating results fluctuate significantly, and if we miss quarterly financial expectations, our stock price could decline.

Our operating results are difficult to predict, and fluctuate significantly from quarter to quarter. It is likely that our operating results in some periods will be below investor expectations. If this happens, the market price of our common stock is likely to decline. Fluctuations in our future quarterly earnings results may be caused by many factors, including:

- the volume and timing of orders from and shipments to our customers;
- work stoppages and other developments affecting the operations of our customers;
- the timing of and our ability to obtain new customer contracts;
- the timing of new product and service announcements;
- the availability of products and services;
- the overall level of capital expenditures by our customers;
- the market acceptance of new and enhanced versions of our products and services or variations in the mix of products and services we sell;

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the utilization of our production capacity and employees; and

the availability and cost of key components.

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

In addition, prior to fiscal 2001, our operating results were subject to seasonal factors. We historically have had stronger demand for our products and services in the fourth fiscal quarter ending October 31, primarily as a result of our year-end incentives and customer budget cycles. We typically have experienced weaker demand for our products and services in the first fiscal quarter ending January 31, primarily as a result of the number of holidays in late November, December and early January, the development of annual capital budgets by our customers during that period, and a general industry slowdown during that period.

Due to the economic downturn in the communications equipment and services market during fiscal 2001-2003, this historical trend of seasonality was not evident during these three fiscal years. We cannot predict if these historical seasonal trends will return.

The regulatory environment in which our customers operate is changing.

Although our business is not subject to direct regulation, the communications service industry in which our customers operate is subject to federal and state regulation in the United States and in other countries. In early 1996, the United States Telecommunications Act of 1996 was enacted. The Telecommunications Act lifted certain restrictions on the ability of companies, including the Regional Bell Operating Companies and other ADC customers, to compete with one another. The Telecommunications Act also made other significant changes in the regulation of the telecommunications industry. These changes generally have increased our opportunities to provide solutions for our customers Internet, data, video and voice needs.

However, the established telecommunications providers have stated that some of these changes have diminished the profitability of additional investments made by them in their networks, which reduces their demand for our products. On February 20, 2003, the Federal Communications Commission (FCC) adopted rules under the Telecommunications Act concerning the obligation of the established telecommunication service providers to share their networks with competitors, a practice known as unbundling. The FCC essentially retained the existing unbundling obligations of the carriers with respect to their historic copper-based network infrastructure, and ruled not to require the unbundling of certain network elements in their next generation hybrid and fiber networks. In August 2003, the FCC issued its final rules on unbundling obligations. It is too early to predict what effect these rules will have on capital spending by our customers. Portions of these rules have already been subjected to legal challenges by various constituents within the telecommunications industry, and additional legal challenges are likely. We do not anticipate that these rules will result in increased capital spending by the incumbent carriers or new competitors in the near term.

Future regulatory changes affecting the communications industry are anticipated both in the United States and internationally. These changes could negatively affect our customers and reduce demand for our products. In addition, competition in our markets could intensify as the result of changes to existing regulations or new regulations. Accordingly, changes in the regulatory environment could adversely affect our business and results of operations.

Customer payment defaults could have an adverse effect on our financial condition and results of operations.

As a result of adverse conditions in the telecommunications market, some of our customers have and may continue to experience serious financial difficulties, which in some cases have resulted or may result in bankruptcy filings or cessation of operations. In the future, if customers experiencing financial problems default and fail to pay amounts owed to us, we may not be able to collect these amounts or recognize expected revenue. In the current environment in the telecommunications equipment industry and the United States and global economy, it is possible that customers from whom we expect to derive substantial

revenue will default or that the level of defaults will increase. Any material payment defaults by our customers would have an adverse effect on our results of operations and financial condition.

We also have provided financing to some of our customers for purchases of our equipment. As of October 31, 2003, we had commitments to extend credit of approximately $26.5 million, of which approximately $23.2 million was outstanding on this date. At such date, we had recorded approximately $19.4 million in loss reserves in the event of non-performance related to these financing arrangements.

Many of our competitors engage in similar financing transactions in order to obtain customer orders. To remain competitive, we believe that it may be necessary for us to continue to offer financing arrangements in the future. We intend under certain circumstances to sell all or a portion of these commitments and outstanding receivables to third parties. In the past, we have sold some receivables with recourse and have had to compensate the purchaser for the loss.

Our ability to collect on these financing arrangements is contingent on the financial health of the companies to which we extend credit. The condition of these companies is affected by many factors, including, among others, general conditions in the communications equipment and services industry, general economic conditions and changes in telecommunications regulations. We may experience credit losses that could adversely affect our operating results and financial condition.

Conditions in global markets could affect our operations.

Our non-United States sales accounted for approximately 36.3%, 27.1% and 28.8% of our net sales in fiscal 2003, 2002 and 2001, respectively. We expect non-United States sales to remain a significant percentage of net sales in the future. In addition to sales and distribution in numerous countries, we own or lease operations located in Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, Hungary, India, Ireland, Italy, Japan, Malaysia, Mexico, Puerto Rico, Russia, Singapore, South Korea, Spain, the United Arab Emirates, the United Kingdom and Venezuela. Due to our non-United States sales and our non-United States operations, we are subject to the risks of conducting business globally. These risks include:

- local economic and market conditions;
- political and economic instability;
- unexpected changes in or impositions of legislative or regulatory requirements;
- fluctuations in the exchange rate of the United States dollar;
- tariffs and other barriers and restrictions;
- longer payment cycles;
- difficulties in enforcing intellectual property and contract rights;
- greater difficulty in accounts receivable collection;
- potentially adverse taxes; and
- the burdens of complying with a variety of non-United States laws and telecommunications standards.

We also are subject to general geopolitical risks, such as terrorism, political and economic instability and changes in diplomatic and trade relationships. We maintain business operations and have sales in many non-United States markets. Economic conditions in many of these markets represent significant risks to us. We cannot predict whether our sales and business operations in these markets will be affected adversely by these conditions.

Instability in non-United States markets, particularly in the Middle East, Asia and Latin America, could have a negative impact on our business, financial condition and operating results. The aftermath of the war in Iraq and other turmoil in the Middle East also may have negative effects on the operating results of some of our businesses. In addition to the effect of global economic instability on non-United

States sales, sales to United States customers having significant non-United States operations could be impacted negatively by these conditions.

Our intellectual property rights may not be adequate to protect our business.

Our future success depends in part upon our proprietary technology. Although we attempt to protect our proprietary technology through patents, trademarks, copyrights and trade secrets, these protections are limited. Accordingly, we cannot predict whether such protection will be adequate, or whether our competitors can develop similar technology independently without violating our proprietary rights.

Also, rights that may be granted under any patent application in the future may not provide competitive advantages to us. Intellectual property protection in foreign jurisdictions may be limited or unavailable. In addition, many of our competitors have substantially larger portfolios of patents and other intellectual property rights than we do.

As the competition in the communications equipment industry increases and the functionality of the products in this industry further overlaps, we believe that companies in the communications equipment industry are becoming increasingly subject to infringement claims. We have received and may continue to receive notices from third parties, including some of our competitors, claiming that we are infringing third-party patents or other proprietary rights. We cannot predict whether we will prevail in any litigation over third-party claims, or whether we will be able to license any valid and infringed patents on commercially reasonable terms. It is possible that unfavorable resolution of such litigation could have a material adverse effect on our business, results of operations or financial condition. Any of these claims, whether with or without merit, could result in costly litigation, divert our management s time, attention and resources, delay our product shipments or require us to enter into royalty or licensing agreements, which could be expensive. A third party may not be willing to enter into a royalty or licensing agreement on acceptable terms, if at all. If a claim of product infringement against us is successful and we fail to obtain a license or develop or license non-infringing technology, our business, financial condition and operating results could be affected adversely.

We are dependent upon key personnel.

Like all technology companies, our success is dependent on the efforts and abilities of our employees. Our ability to attract, retain and motivate skilled employees is critical to our success. In addition, because we may acquire one or more businesses in the future, our success will depend, in part, upon our ability to retain and integrate our own personnel with personnel from acquired entities who are necessary to the continued success or the successful integration of the acquired businesses.

Our recent initiatives to focus our business on core operations and products by restructuring and streamlining operations, including substantial reductions in our workforce, have created uncertainty on the part of our employees regarding future employment with us. This uncertainty, together with our operating losses and lower stock price, may have an adverse effect on our ability to retain and attract key personnel.

Product defects could cause us to lose customers and revenue or to incur unexpected expenses.

If our products do not meet our customers performance requirements, our customer relationships may suffer. Also, our products may contain defects. Any failure or poor performance of our products could result in:

- delayed market acceptance of our products;
- delays in product shipments;
- unexpected expenses and diversion of resources to replace defective products or identify the source of errors and to correct them;
- damage to our reputation and our customer relationships;
- delayed or lost revenue; and

- product liability claims or other claims for damages that may be caused by any product defects or performance failures.

Our products are often critical to the performance of communication systems. Many of our supply agreements contain limited warranty provisions. If these contractual limitations are unenforceable in a particular jurisdiction or if we are exposed to product liability claims that are not covered by insurance, a successful claim could harm our business.

We may encounter difficulties obtaining raw materials and supplies needed to make our products.

Our ability to produce our products is dependent upon the availability of certain raw materials and supplies. The availability of these raw materials and supplies is subject to market forces beyond our control. From time to time there may not be sufficient quantities of raw materials and supplies in the marketplace to meet the customer demand for our products. In addition, the costs to obtain these raw materials and supplies are subject to price fluctuations because of market demand. Many companies utilize the same raw materials and supplies in the production of their products as we use in our products. Companies with more resources than our own may have a competitive advantage in obtaining raw materials and supplies due to greater buying power. Reduced supply and higher prices of raw materials and supplies may affect our business, operating results and financial condition adversely.

In addition, we have increased our reliance on the use of contract manufacturers to make our products on our behalf. If these contract manufacturers do not fulfill their obligations to us, or if we do not properly manage these relationships, our existing customer relationships may suffer. We intend to outsource additional functions in the future.

We have been named as a defendant in securities and other litigation.

We are the defendant in two purported shareowner class action lawsuits. In the first such lawsuit, In Re ADC Telecommunications, Inc. Securities Litigation, the complaint alleges that we violated the securities laws by making false and misleading statements about our financial performance and business prospects.

We have also been named as a defendant in a purported class action lawsuit alleging breach of fiduciary duties under ERISA. This case, In Re ADC Telecommunications, Inc. ERISA Litigation, has been brought by individuals who seek to represent a class of participants in our Retirement Savings Plan who purchased our common stock as one of the investment alternatives under the plan.

Litigation is by its nature uncertain and unfavorable resolutions of these lawsuits could materially adversely affect our business, results of operations or financial condition.

We are a party to various other lawsuits, proceedings and claims arising in the ordinary course of business or otherwise. The amount of monetary liability resulting from an adverse result in many of such lawsuits, proceedings or claims cannot be determined at this time. As of October 31, 2003, we had recorded approximately $9.1 million in loss reserves in the event of such adverse outcomes in these matters. Because of the uncertainty inherent in litigation, it is possible that unfavorable resolutions of these lawsuits, proceedings and claims could exceed the amount currently reserved and could have a material adverse affect on our business, results of operations or financial condition.

We are subject to risks associated with changes in security prices, interest rates and foreign exchange rates.

We face market risks from changes in security prices and interest rates. Market fluctuations could affect our results of operations and financial condition adversely. At times, we reduce this risk through the use of derivative financial instruments. However, we do not enter into derivative instruments for the purpose of speculation.

Also, we are exposed to market risks from changes in foreign exchange rates. To mitigate this risk, we have instituted a balance sheet hedging program. The objective of this program is to protect our net monetary assets and liabilities in non-functional currencies from fluctuations due to movements in foreign

exchange rates. We attempt to minimize exposure to currencies in which hedging instruments are unavailable or prohibitively expensive by managing our operating activities and net assets position.

Risks Related to Our Common Stock

Our stock price is volatile.

Based on the trading history of our common stock and the nature of the market for publicly traded securities of companies in our industry, we believe that some factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially. The fluctuations could occur from day-to-day or over a longer period of time. The factors that may cause such fluctuations include:

- announcements of new products and services by us or our competitors;
- quarterly fluctuations in our financial results or the financial results of our competitors or our customers;
- customer contract awards to us or our competitors;
- increased competition with our competitors or among our customers;
- consolidation among our competitors or customers;
- disputes concerning intellectual property rights;
- the financial health of ADC, our competitors or our customers;
- developments in telecommunications regulations;
- general conditions in the communications equipment industry; and
- general economic conditions.

In addition, communications equipment company stocks in the past have experienced significant price and volume fluctuations that are often unrelated to the operating performance of such companies. This market volatility may adversely affect the market price of our common stock.

We have not in the past and do not intend in the foreseeable future to pay cash dividends on our common stock.

We currently do not pay any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain future earnings, if any, to finance our operations and for general corporate purposes.

Anti-takeover provisions in our charter documents, our shareowner rights plan and Minnesota law could prevent or delay a change in control of our company.

Provisions of our articles of incorporation and bylaws, our shareowner rights plan (also known as a poison pill) and Minnesota law may discourage, delay or prevent a merger or acquisition that a shareowner may consider favorable and may limit the market price for our common stock. These provisions include the following:

- advance notice requirements for shareowner proposals;
- authorization for our Board of Directors to issue preferred stock without shareowner approval;
- authorization for our Board of Directors to issue preferred stock purchase rights upon a third party s acquisition of 15% or more of our outstanding shares of common stock; and
- limitations on business combinations with interested shareowners.

Some of these provisions may discourage a future acquisition of ADC even though our shareowners would receive an attractive value for their shares or a significant number of our shareowners believed such a proposed transaction would be in their best interest.

Item 2. PROPERTIES

Our corporate headquarters are located in Eden Prairie, Minnesota. Our corporate headquarters comprise approximately 500,000 square feet and we own this facility.

In addition to our headquarters facility, our principal facilities as of October 31, 2003, consisted of the following:

Shakopee, Minnesota approximately 360,000 sq. ft. owned facility; general purpose facility used for engineering, manufacturing, and general support of our connectivity products;

Juarez and Delicias, Mexico approximately 228,000 and 139,000 sq. feet, respectively, owned facilities; manufacturing facilities used for our connectivity products;

Westborough, Massachusetts approximately 64,000 sq. ft. leased facility; general purpose facility used for engineering, testing, and general support of our IP cable products;

Raleigh, North Carolina approximately 40,000 sq. ft leased facility; general purpose facility used for engineering, testing and general support for our wireline products; and

Santa Teresa, New Mexico approximately 208,000 sq. ft. leased facility; global warehouse and distribution center with approximately 60,000 sq. ft. dedicated to selected finished product assembly operations.

We also own or lease approximately 74 other facilities in the following locations: Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, Hungary, India, Ireland, Italy, Japan, Malaysia, Mexico, Puerto Rico, Russia, Singapore, South Korea, Spain, the United Arab Emirates, the United Kingdom, the United States and Venezuela.

We believe that the facilities used in our operations are suitable for their respective uses and adequate to meet our current needs. During fiscal 2003, we continued to take steps to reduce and consolidate our facilities in response to the downturn in the communications equipment industry. At the end of fiscal 2002, we had active space and irrevocable commitments to activate space totaling approximately 3.0 million square feet. Through the sale or subleasing of facilities, the placement of sites on inactive status, we presently maintain approximately 2.3 million square feet of active space.

Item 3. LEGAL PROCEEDINGS

On March 5, 2003, we were served with a shareowner lawsuit brought by Wanda Kinermon that has been filed in the United States District Court for the District of Minnesota. The complaint names ADC, William J. Cadogan, our former Chairman and Chief Executive Officer, and Robert E. Switz, our Chief Executive Officer, as defendants. During the period the lawsuit covers, Mr. Switz held the position of Executive Vice President and Chief Financial Officer. Since this lawsuit was served, we were named as a defendant in 11 other substantially similar lawsuits. These shareowner lawsuits have been consolidated into a single lawsuit, which has been captioned In Re ADC Telecommunications, Inc. Securities Litigation. This lawsuit purports to bring suit on behalf of a class of purchasers of our publicly traded securities from August 17, 2000, to March 28, 2001. The complaint alleges that we violated the securities laws by making false and misleading statements about our financial performance and business prospects during this period. On November 24, 2003, we filed a motion to dismiss this lawsuit. This motion is pending before the court.

On May 19, 2003, we were served with a lawsuit brought by Lorraine Osborne that has been filed in the United States District Court for the District of Minnesota. The complaint names ADC and several of our current and former officers, employees and directors as defendants. Since this lawsuit was served, we were served with two substantially similar lawsuits, and all three lawsuits have been consolidated into a single lawsuit, which has been captioned In Re ADC Telecommunications, Inc. ERISA Litigation. This lawsuit has been brought by individuals who seek to represent a class of participants in our Retirement Savings Plan who purchased our common stock as one of the investment alternatives under the plan. The lawsuit alleges a breach of fiduciary duties under the Employee Retirement Income Security Act.

We believe that the two lawsuits described above are without merit and we intend to defend these actions vigorously. However, due to the uncertainty inherent in litigation, an unfavorable resolution of these matters is possible, and they could have a material adverse effect on our business, results of operations or financial condition.

We are a party to various other lawsuits, proceedings and claims arising in the ordinary course of business or otherwise. These matters include disputes related to intellectual property infringement, breach of contract, employment-related claims, and other topics, many of which relate to the substantial restructuring that we conducted over the last three fiscal years. Many of these disputes may be resolved amicably without resort to formal litigation. The amount of monetary liability resulting from the ultimate resolution of these matters cannot be determined at this time. As of October 31, 2003, we had recorded approximately $9.1 million in loss reserves for these matters. In light of these reserves, we believe the ultimate resolution of these other lawsuits, proceedings and claims will not have a material adverse impact on our business, results of operations or financial condition. However, litigation by its nature is uncertain, and we cannot predict the ultimate outcome of these matters with certainty and there remains a possibility that such matters could have a material adverse outcome.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED SHAREOWNER MATTERS

Our common stock, $0.20 par value, is traded on The Nasdaq Stock Market under the symbol ADCT. The following table sets forth the high and low sales prices of our common stock for each quarter during our fiscal years ended October 31, 2003 and 2002, as reported on that market.

	2003		2002	
	High	Low	High	Low
First Quarter	$3.15	$1.51	$5.97	$3.52
Second Quarter	2.73	2.05	4.90	3.26
Third Quarter	3.21	1.96	4.09	1.66
Fourth Quarter	2.90	2.10	1.83	1.02

As of January 7, 2004, there were 8,631 registered holders of record of our common stock. We do not pay cash dividends on our common stock and do not intend to pay cash dividends for the foreseeable future.

Item 6. SELECTED FINANCIAL DATA

The following summary information should be read in conjunction with the Consolidated Financial Statements and related notes thereto set forth in Item 8 of this Form 10-K.

FIVE-YEAR FINANCIAL SUMMARY
Years ended October 31

(dollars in millions, except per share data)

	2003	2002	2001	2000	1999
Income statement data					
Net sales	$ 773.2	1,047.7	$ 2,402.8	$3,287.9	$2,151.8
International sales	280.7	283.6	692.2	708.1	499.3
Gross profit	291.4	246.5	725.0	1,608.9	1,003.4
Research and development expense	108.6	182.8	287.3	367.2	251.4
Selling and administration expense	222.1	374.0	715.3	683.5	445.8
Goodwill amortization			56.6	34.3	22.2
Operating (loss) income	(96.7)	(878.2)	(1,031.3)	365.9	135.0
(Loss) income before income taxes	(82.1)	(882.2)	(1,920.7)	1,460.4	134.9
(Benefit) provision for income taxes	(5.4)	262.8	(633.0)	592.3	57.0
Net income (loss)	(76.7)	(1,145.0)	(1,287.7)	868.1	77.9
(Loss) earnings per diluted share	(0.10)	(1.44)	(1.64)	1.13	0.11
Impairment and restructuring charges:					
Impairment charges	15.6	348.3	501.7		
Restructuring charges	41.8	219.6	195.4	158.0	149.0
Other disposal charges(1)		13.2	80.8		
Gain (loss) on sale or shutdown of product lines	(1.4)	(6.7)	(81.9)	328.6	
Gain (loss) on investments, net: Write-down or conversion of investments		(50.9)	(862.5)	722.6	
Sale of investments, net	3.8	67.8	76.8	23.8	
Increase in deferred tax valuation allowance	39.7	640.2	71.1		
Cash Flow Data					
Total cash provided by operating activities	38.9	60.5	95.0	250.9	290.5
Depreciation and amortization	59.2	104.7	197.8	146.2	114.8
Capital expenditures, net	67.6	25.6	241.2	375.3	125.1
Balance Sheet Data					
Current assets	1,006.0	686.3	1,305.2	2,650.9	1,376.6
Current liabilities	265.5	397.8	599.4	1,041.3	448.5
Property and equipment, net	192.3	206.8	614.0	608.6	341.2
Total assets	1,296.9	1,144.2	2,499.7	3,970.5	2,057.8
Long-term notes payable	400.0	10.8	3.0	16.5	14.0
Shareowners investment	627.7	732.2	1,893.4	2,912.7	1,595.3

(1) These charges are included in cost of sales and selling and administration expense in our consolidated statements of operations. See Note 11 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Marketplace Conditions

Our operating results during fiscal 2003, 2002 and 2001 were adversely affected by the downturn in spending for communications equipment. Although our quarterly revenues began to stabilize somewhat during fiscal 2003, spending on communications equipment remains at low levels compared to pre-2001 levels. The reasons for this lower level of spending include general economic conditions resulting in reduced end-user demand for communications services, excess capacity within our customers communication networks, the absence of communications network buildouts by new competitive entrants in the service provider market and a related decline in competitive response spending by incumbent service providers. When the downturn in communications equipment spending first became evident in fiscal 2001, we began to implement restructuring plans to reduce operating expenses and capital spending and to narrow the focus of our business. As it became evident in fiscal 2002 that our industry was experiencing an even more pronounced and prolonged economic downturn, we took additional measures to align our cost structure with lower revenues and narrow the focus of our business. Our actions to date have included:

- The sale or closure of non-strategic product lines;
- significant reductions in discretionary spending;
- the disposition of surplus equipment;
- consolidation of facilities; and
- substantial reductions in our workforce.

Despite these restructuring actions, we may be unable to meet expected revenue levels in any particular quarter, in which case our operating results could be materially adversely affected if we are unable to further reduce our expenses in time to counteract such a decline in revenues. We continue to be dependent on telecommunications service providers for the majority of our revenues, with the four major U.S. incumbent local exchange carriers (Verizon, SBC, Bellsouth and Qwest) accounting for approximately 25.7%, 28.2% and 32.0% of our revenues during fiscal 2003, 2002 and 2001, respectively. In addition, our top ten customers accounted for approximately 44.5%, 47.2% and 51.7% of our revenues during fiscal 2003, 2002 and 2001, respectively.

As the prolonged downturn in the communications service industry continues, we expect some consolidation among our customers in order for them to increase market share, diversify product portfolios and/or achieve greater economies of scale and improve levels of profitability. This activity is likely to have an impact on our results of operations during the time the consolidating companies focus on integrating their operations and choose their equipment vendors. There can be no assurance that we will be a supplier to the surviving service provider. For example, during fiscal 2003, AT&T Broadband, which was a customer of our IP cable products, was acquired by Comcast Corporation, and Comcast informed us that we have not been approved as a continuing supplier of certain IP cable products.

In addition to the consolidation we expect from our customers, we expect several forms of structural change in the communications equipment industry. Competition among equipment vendors remains extremely intense. These vendors (including us) are competing for business from relatively few, and very large, communication service providers who continue to exert pricing pressure on their vendors. Accordingly, we expect to see continued consolidation among our competitors or more strategic alliances among them to obtain greater economies of scale. Finally, we expect continuing product line rationalization as companies divest unprofitable product lines in an effort to focus on profitable business opportunities.

We plan to acquire additional product lines or businesses that are complimentary to our communications infrastructure business. We intend to pursue acquisition opportunities that will enable us to expand our core business of supplying communications infrastructure products and services to communications service providers, as well as opportunities that will bolster our position as a supplier to private, or enterprise, network customers. We expect to fund these potential acquisitions with all or a

portion of the net proceeds of our $400 million convertible note offering completed in June 2003, with the issuance of shares of common or preferred stock or through some combination of cash and stock. We may also divest non-strategic product lines as we focus on growing our business profitably. In December 2003, we entered into an agreement to sell our BroadAccess40 product line. This product line accounted for approximately 3% of our net sales in fiscal 2003. This transaction is expected to close by March 1, 2004.

On February 20, 2003, the Federal Communications Commission (FCC) adopted rules under the U.S. Telecommunications Act of 1996 concerning the obligation of the established telecommunication service providers to share their networks with competitors, a practice known as unbundling. The FCC essentially retained the existing unbundling obligations of the carriers with respect to their historic copper-based network infrastructure, and ruled not to require the unbundling of certain network elements in their next generation hybrid and fiber networks. In August 2003, the FCC issued its final rules on unbundling obligations. It is too early to predict what effect these rules will have on capital spending by our customers. Portions of these rules have already been subjected to legal challenges by various constituents within the telecommunications industry, and additional legal challenges are likely. We do not anticipate that these rules will result in increased capital spending by the incumbent carriers or new competitors in the near term.

Our ability to grow our business is dependent on our ability to effectively compete with our current products and services, our ability to develop and introduce new products, and on the growth of the communications equipment and services market. The communications equipment industry is highly competitive. Growth in the market for broadband communications products and services depends on a number of factors, including the availability of capital to communications service providers, the amount of capital expenditures by communications service providers, new regulatory and legal requirements and end-user demands for Internet, data, video, voice and other communications services.

Our revenues have declined dramatically over the last three fiscal years, with indications of stability appearing during fiscal 2003. We cannot predict whether this stability will remain, or when growth will occur. Prior to the downturn of fiscal 2001-2003, our results of operations had been subject to seasonal factors, with stronger demand for our products during our fourth fiscal quarter ending October 31 (primarily as a result of customer budget cycles and our fiscal year-end incentives) and weaker demand for our products during our first fiscal quarter ending January 31 (primarily as a result of the number of holidays in late November, December and early January, the development of annual capital budgets by our customers during that period, and a general industry slowdown during that period.) There can be no assurance that these historical seasonal trends will return. A more detailed description of the risks to our business related to seasonality, along with other risk factors associated with our business, can be found in the section captioned Risk Factors at Item 1 of this Annual Report on Form 10-K.

Results of Operations

The following table contains information regarding the percentage of net sales of certain income and expense items for the three fiscal years ended October 31, 2003, 2002 and 2001 and the percentage changes in these income and expense items from year to year:

	Percentage of Net Sales			Percentage Increase (Decrease) Between Periods	
	2003	**2002**	**2001**	**2003 vs. 2002**	**2002 vs. 2001**
Net sales	100.0%	100.0%	100.0%	(26.2)	(56.4)
Cost of sales	(62.3)	(76.5)	(69.8)	(39.9)	(52.2)
Gross profit	37.7	23.5	30.2	18.2	(66.0)
Operating expenses:					
Research and development	(14.0)	(17.4)	(11.9)	(40.6)	(36.4)
Selling and administration	(28.8)	(35.7)	(29.8)	(40.6)	(47.7)
Goodwill amortization			(2.4)		(100.0)
Impairment charges	(2.0)	(33.2)	(20.9)	(95.5)	(30.6)
Restructuring charges	(5.4)	(21.0)	(8.1)	(81.0)	12.4
Operating loss	(12.5)	(83.8)	(42.9)	89.0	14.8
Other income (expense), net:					
Interest income (expense), net	0.8	0.8	(0.1)	(25.0)	481.8
Other, net	1.1	(1.2)	(36.9)	166.9	(98.6)
Loss before income taxes	(10.6)	(84.2)	(79.9)	90.7	54.1
Provision (benefit) for income taxes	(0.7)	25.1	(26.3)	102.1	(141.5)
Net income (loss)	(9.9)%	(109.3)%	(53.6)%	93.3%	11.1%

The table below sets forth our net sales for the three fiscal years ended October 31, 2003, for each of our reportable segments described in Item 1 of this Form 10-K (in millions).

	2003		2002		2001	
Operating Segment	**Net Sales**	**%**	**Net Sales**	**%**	**Net Sales**	**%**
Broadband Infrastructure and Access	$486.3	62.9%	$ 715.1	68.3%	$1,810.8	75.4%
Integrated Solutions	286.9	37.1	332.6	31.7	592.0	24.6
Total	$773.2	100.0%	$1,047.7	100.0%	$2,402.8	100.0%

Net Sales

Fiscal 2003 vs. Fiscal 2002

Net sales were $773.2 million and $1,047.7 million for fiscal 2003 and 2002, respectively, which was a 26.2% decrease. International net sales were 36.3% and 27.1% of our net sales in fiscal 2003 and 2002, respectively.

During fiscal 2003, net sales of Broadband Infrastructure and Access products declined by 32.0% compared to fiscal 2002. Net sales in the Broadband Infrastructure and Access product lines decreased primarily as a result of lower volumes of products sold due to reductions in communications service provider capital budgets, as well as the lack of new network build-outs or significant expansions of existing networks. In addition, sales of our IP cable product line decreased due to a lower level of spending by our customers in general and particularly as a result of Comcast Corporation s acquisition of AT&T Broadband, which previously was a significant customer for our IP cable products. Comcast has informed us that we have not been approved as a continuing supplier of cable modem termination systems, which we previously supplied to AT&T Broadband, and has significantly reduced its purchases of our cable telephony products. Our wireline product line continues to face strong competition, which is continuing to put pressure on our market share positions and price levels for these products. In response, we intend to aggressively defend our current market share by delivering high quality products and superior customer service and have taken steps to lower our production and engineering costs for these products.

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Net sales of our Integrated Solutions products declined by 13.7% from $332.6 million in fiscal 2002 to $286.9 million in fiscal 2003. The decrease in this segment is a result of continued reductions in our customers capital spending budgets as well as our decision not to bid on low margin systems integration projects. The decrease in sales was tempered by a broadening of the historic customer base for our systems integration services, which has predominately been the major U.S. incumbent local exchange carriers, to include wireless carriers and long distance service providers. We anticipate that future revenue in our Integrated Solutions segment will be subject to increased variability, because we intend to focus our software sales efforts on major accounts, which typically have longer sales cycles for large-scale software installations.

International sales increased as a percentage of sales in fiscal 2003 to 36.3% from 27.1% in fiscal 2002. This increase is due to a combination of more pronounced capital spending reductions by communication service providers in the United States than in other regions and two large contract wins in Europe for our software and IP Cable products.

Fiscal 2002 vs. Fiscal 2001

Net sales were $1,047.7 million and $2,402.8 million for fiscal 2002 and 2001, respectively, reflecting a 56.4% decrease. International net sales comprised 27.1% and 28.8% of our net sales in fiscal 2002 and 2001, respectively.

The 56.4% decrease in net sales was largely attributable to lower volumes of products sold due to significant reductions in communication service provider capital budgets, as well as the lack of new network build-outs or significant expansions of existing networks. The decline was most pronounced for our broadband connectivity products, but occurred across all product lines with the exception of our IP Cable products, which had increased sales over the prior year. Sales of our software products also declined, which we believe was in part due to the fact that these products had been targeted for the competitive local exchange carrier market, a segment which has been severely affected by a lack of capital resources, causing many of these companies to cease operations. In response, during fiscal 2002, we repositioned our software products to add applications for next-generation wireless providers, enterprises and media and content providers, which we believe will present broader and higher growth opportunities. We believe this target market transition contributed to the year-over-year decline in sales.

The sales decline was also due to the absence of sales from product lines we divested in fiscal 2002 and 2001. Sales from divested product lines were $14.9 million, and $404.9 million in fiscal 2002 and 2001, respectively. See Note 6 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a further breakdown of divested net sales by segment.

Gross Profit

Fiscal 2003 vs. Fiscal 2002

Gross profit percentages were 37.7% and 23.5%, respectively, during fiscal 2003 and 2002. The increase in gross profit percentage was due to a more favorable sales mix toward higher margin connectivity products, our decision not to bid on low margin systems integration projects and a reduction in our fixed costs of sales as a result of our restructuring activities. In addition, cost of sales for fiscal 2002 included $18.9 million of other disposal charges for inventory write-offs related to divested product lines.

In addition to a more favorable sales mix, we also benefited from production efficiencies and reduced production costs resulting from more favorable supplier pricing and the outsourcing of portions of our manufacturing operations. We anticipate that our future gross profit percentage will vary based on many factors, including sales mix, competitive pricing, timing of new product introductions, timing of customer acceptance and collectibility of large-scale sales transactions and manufacturing volume.

Fiscal 2002 vs. Fiscal 2001

During fiscal 2002 and 2001, gross profit percentages were 23.5% and 30.2%, respectively. The decrease in gross profit percentage was primarily due to a decrease in sales volume without a corresponding reduction in fixed factory expenses, and a shift in sales mix to lower margin products and

services. Also, in fiscal 2002 and 2001, $18.9 million and $52.4 million of other disposal charges for inventory write-offs and other costs to exit certain sales contracts were included in cost of product sold, respectively.

Operating Expenses

Fiscal 2003 vs. Fiscal 2002

Total operating expenses for fiscal 2003 and 2002 were $388.1 million and $1,124.7 million, respectively. Included in these operating expenses were restructuring charges of $41.8 million and $219.6 million, respectively, and impairment charges of $15.6 million and $348.3 million, respectively. Although the largest factor in the decrease in operating expenses was the reduction in the amount of our restructuring and impairment charges, our operating expenses also declined due to the ongoing cost savings from our restructuring efforts.

Research and development: Research and development expenses were $108.6 million for fiscal 2003 compared to $182.8 million for fiscal 2002, which represents a decrease of 40.6%. The decrease was largely due to the divestiture or discontinuance of certain product lines in fiscal 2002 as well as our ongoing cost containment efforts. We believe that, given the rapidly changing technological and competitive environment in the communications equipment industry, continued commitment to product development efforts will be required for us to remain competitive. Accordingly, we intend to continue to allocate substantial resources, as a percentage of net sales, to product development in each of our operating segments.

Selling and administration: Selling and administration expense decreased 40.6% from $374.0 million in fiscal 2002 to $222.1 million in fiscal 2003. This decrease was largely due to the effect of our workforce reductions and lower occupancy costs resulting from the consolidation of facilities. Occupancy costs were also lower as a result of the lower carrying value of certain facilities, due to the restructuring charges we incurred in fiscal 2002.

Impairment charges: Impairment charges represent a write-down of the carrying value of long-lived assets (principally goodwill and fixed assets) to their estimated fair market value. These charges declined substantially in fiscal 2003 compared to fiscal 2002 ($15.6 million compared to $348.3 million). The fiscal 2003 impairment charges consisted solely of property and equipment impairments, which impacted both the Broadband Infrastructure and Access and Integrated Solutions segments, and were caused by our plan to dispose of excess equipment. The fair market value of this equipment was determined using external sources, primarily proceeds received from previous equipment sales or estimates of discounted cash flows.

The fiscal 2002 impairment charges related to the write-down of goodwill and fixed assets. The total goodwill write-down was $136.3 million, of which $36.6 million related to our decision to exit the optical components product line, with the remainder resulting from our annual goodwill impairment analysis of our continuing businesses. The total fixed asset impairment charge was $212.0 million, of which $45.7 million related to our decision to sell our Glenrothes, Scotland manufacturing facility. The remaining charges are primarily related to our decision to exit the optical components and certain other product lines.

See Notes 11 and 12 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a further discussion of our impairment charges.

Restructuring charges: Restructuring charges represent the direct costs of exiting certain product lines, consolidating facilities and downsizing our business. Our restructuring charges also declined significantly in fiscal 2003 compared to fiscal 2002 ($41.8 million compared to $219.6 million). The fiscal 2003 restructuring charges consisted of $30.2 million of employee severance for workforce reductions and $11.6 million of facility consolidation charges. The employee terminations affected both the Broadband Infrastructure and Access and Integrated Solutions segments. During fiscal 2003, we reduced our workforce by approximately 1,900 employees (25% of our total workforce), which included approximately 1,450 employees impacted by reductions in force.

The fiscal 2002 restructuring charges consisted principally of $153.8 million related to the consolidation of facilities, $53.1 million for employee severance costs related to our workforce reduction,

and $10.5 million for in-process research and development costs relating to our decision to purchase the interest of our joint venture partner in three technology development partnerships. Of the $153.8 of facilities consolidation costs, $84.3 million related to our decision to extend the lease on our headquarters facility. This charge represented the reduction in fair market value of the facility below the value we had guaranteed to the lessor. (See Liquidity and Capital Resources Finance Related Transactions below, for a further discussion of our headquarters lease). The balance of the facilities consolidation costs related to lease termination costs for excess facilities, as we deactivated approximately 1.8 million square feet (38% of our total space) during fiscal 2002. The employee severance costs related to our workforce reduction of approximately 4,400 employees in fiscal 2002 (37% of our total workforce), which included approximately 2,900 employees impacted by reductions in force.

See Note 11 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a further discussion of our restructuring charges.

Fiscal 2002 vs. Fiscal 2001

Total operating expenses for fiscal 2002 and 2001 were $1,124.7 million and $1,756.3 million, representing 107.3% and 73.1% of net sales, respectively. Included in these operating expenses were restructuring charges of $219.6 million and $195.4 million, other disposal charges (reversals) of $(5.7) million and $28.4 million and impairment charges of $348.3 million and $501.7 million in fiscal 2002 and 2001, respectively. In addition to the lower aggregate amount of impairment, restructuring and other disposal charges in fiscal 2002, our operating expenses were lower primarily due to the ongoing cost savings from our restructuring efforts as well as the divestiture of certain product lines.

Research and development: Research and development expenses were $182.8 million for fiscal 2002, representing a 36.4% decrease from $287.3 million for fiscal 2001. This decrease reflected our efforts to control expenses.

Selling and administration: Selling and administration expenses were $374.0 million for fiscal 2002, representing a decrease of 47.7% from $715.3 million for fiscal 2001. This decrease reflects the benefits realized from our restructuring efforts. In addition, selling and administration expenses decreased $138.7 million from 2001 due to the divestiture or discontinuance of certain product lines in fiscal 2001. Also included in the fiscal 2002 and 2001 amounts were $(5.7) million and $28.4 million, respectively, in selling and administration expenses (reversals) incurred to complete certain non-cancelable sales contracts and contract cancellation payments to customers as a result of our decision to exit certain product lines.

Goodwill amortization: In accordance with SFAS No. 142, we did not record goodwill amortization in fiscal 2002. We recorded $56.6 million of goodwill amortization expense in fiscal 2001.

Impairment charges: Impairment charges decreased significantly in fiscal 2002 compared to fiscal 2001 ($348.3 million compared to $501.7 million). The fiscal 2001 charges were higher because of our substantial divestiture activity in that year in response to the onset of the telecommunications industry downturn. Of the total $501.7 million of impairment charges in fiscal 2001, $294.5 million related to the write-down of goodwill and $207.2 million related to the write-down of fixed assets. The goodwill impairment charge was recognized as a result of our decision to exit non-strategic product lines. The fixed asset impairment charge of $207.2 million resulted from the consolidation of unproductive and duplicative facilities as well as the exit from non-strategic product lines.

Restructuring charges: Restructuring charges were not significantly different in fiscal 2002 than in fiscal 2001 ($219.6 million compared to $195.4 million). The $195.4 million of restructuring charges in fiscal 2001 related to our actions to downsize our business in response to declining sales. These charges consisted principally of $89.0 million for employee severance costs related to our workforce reduction, and $96.0 million of facilities consolidation costs, which consisted principally of lease termination costs. During fiscal 2001, we reduced our workforce by approximately 10,400 employees (46% of the total workforce), which included approximately 7,400 employees impacted by reductions in force. We also deactivated approximately 1.1 million square feet of excess facilities (19% of our total space) during fiscal 2001. In addition, we incurred $10.4 million of acquisition and integration costs and other restructuring charges in fiscal 2001, principally related to our acquisitions of CommTech Corporation and France Electronique in early fiscal 2001.

Other Income (Expense), Net:

Other income (expense), net includes net interest income (expense), gain or loss on the write-down, sale or conversion of our investments, gain or loss on the sale or shutdown of certain product lines and other items. Each of these items is discussed below.

Interest

The net interest income (expense) category represents net interest on cash and cash equivalents as well as debt.

Interest income was $9.9 million, $12.4 million and $6.6 million in fiscal 2003, 2002 and 2001, respectively. Interest income decreased in fiscal 2003 compared to fiscal 2002 primarily due to lower restricted cash balances, reduced interest-bearing customer receivables and lower yields on our short-term investments. Our interest income increased during fiscal 2002 compared to fiscal 2001 due to higher average cash balances maintained during fiscal 2002, partially offset by lower yields on our short-term investments.

Interest expense was $3.6 million, $4.0 million and $8.8 million in fiscal 2003, 2002 and 2001, respectively. Interest expense declined in fiscal 2003 due to the absence of charges relating to our former accounts receivable securitization facility and a general decline in interest rates, which were partially offset by $2.1 million of additional interest expense relating to the convertible notes we issued in June 2003. See Liquidity and Capital Resources below for a discussion of cash and debt levels.

Write-down, sale or conversion of investments

Fiscal 2003: During fiscal 2003, we sold common stock of certain companies in our portfolio and two investments in non-publicly traded securities for an aggregate gain of $3.8 million. See Note 3 to the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of our investment activity.

Fiscal 2002: During fiscal 2002, we sold common stock of certain companies in our investment portfolio and settled related hedging arrangements for a gain of $67.8 million. These gains were offset by non-cash write-downs in the amount of $5.7 million for our marketable securities investments, and $45.2 million for our non-marketable securities.

Fiscal 2001: During fiscal 2001, we sold common stock of certain companies in our portfolio and settled related hedging arrangements for a net gain of $76.8 million. This gain was more than offset by a non-cash loss of $862.5 million we recognized for the decline in the market value of our marketable and non-marketable securities.

Sale or shutdown of product lines

Fiscal 2003: No significant product lines were divested or discontinued during fiscal 2003.

Fiscal 2002: During fiscal 2002, we sold non-strategic product lines in broadcast TV video routing and optical components. We also closed down our Avidia Multiplexer and our optical laser product lines and halted further development of the U.S. version of our iAN product line. These products did not meet our growth, profitability and market leadership criteria. The sales of these assets generated approximately $2.3 million in cash, net of cash disposed, in fiscal 2002. Included in these sales and closures were domestic operations in California, Minnesota and Texas, as well as international operations in Australia and Sweden. These product lines generated annual net sales of $14.9 million and $36.1 million and operating losses of $96.8 million and $170.5 million in fiscal 2002 and 2001, respectively. As a result of these actions, we recorded total losses on sales or shutdowns of approximately $6.7 million in fiscal 2002.

Fiscal 2001: During fiscal 2001, we sold non-strategic product lines in cable/broadcast TV transmission, broadband wireless transmission, enterprise access products, wireless components, optical components and enhanced services software. We also closed down our Cellworx transport product line in fiscal 2001. The sales of these assets generated approximately $117.5 million in cash, net of cash disposed, in fiscal 2001. Included in these sales were domestic operations in California, Connecticut, Minnesota,

Oregon and Pennsylvania, as well as international operations in Argentina, Austria, Denmark and Finland. These product lines generated annual net sales of $368.8 million and operating losses of $79.8 million in fiscal 2001. As a result of these actions, we recorded total losses on sales or shutdowns of approximately $81.9 million in fiscal 2001.

Patent infringement settlement

During fiscal 2002, we recognized a $26.2 million gain from the settlement of a patent infringement lawsuit we brought against a competitor.

Fixed assets

In connection with our efforts to streamline and focus our operations to reduce costs, we sold excess equipment in fiscal 2003, 2002 and 2001. As a result of these sales, we recognized a $1.0 million, $11.5 million and $1.3 million loss in fiscal 2003, 2002 and 2001, respectively.

Other, net

Other, net primarily represents the gain or loss on foreign exchange transactions, loss on sale-leaseback transactions and our share of losses in equity method investments. Other net income (expense) was approximately $6.9 million, $(37.3) million and $(18.3) million in fiscal 2003, 2002 and 2001, respectively.

Income Taxes

Fiscal 2003 vs. Fiscal 2002 vs. Fiscal 2001

Note 10 to the Consolidated Financial Statements describes the items which have impacted our effective income tax rate for fiscal 2003, 2002 and 2001. Significant items include the deductibility of impairment charges and expiration of foreign tax credit carryovers.

In addition, as a result of our cumulative losses in fiscal 2001 and 2002 and the full utilization of our loss carryback potential, we concluded during the third quarter of fiscal 2002 that a full valuation allowance against our net deferred tax assets was appropriate. Since the third quarter of fiscal 2002, we have continued to provide a full valuation allowance against our net deferred tax assets. In fiscal 2003, we recorded an income tax benefit totaling $5.4 million. This benefit is primarily attributable to the reversal of accrued income tax liabilities resulting from the finalization of federal, state and foreign income tax examinations.

Net Loss

Net loss was $76.7 million (or $0.10 per diluted share) for fiscal 2003, compared to net loss of $1,145.0 million (or $1.44 per diluted share) for fiscal 2002. Net loss was $1,287.7 million (or $1.64 per diluted share) for fiscal 2001.

Segment Disclosures

Broadband Infrastructure and Access Segment

Detailed information regarding our Broadband Infrastructure and Access segment is provided in the following table:

	(Dollars in millions) For the years ended October 31,		
	2003	2002	2001
External sales	$486.3	$ 715.1	$1,810.8
Operating loss(1)	(27.8)	(208.7)	(99.2)
Depreciation and amortization	10.0	25.1	101.3
Capital expenditures	2.4	8.2	186.4

	At October 31,		
	2003	2002	2001
Assets	$290.5	$354.7	$1,517.3

(1) Operating loss excludes certain charges and expenses not allocated to the segments as described in Note 14 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Broadband Infrastructure and Access sales decreased $228.8 million, or 32.0%, in fiscal 2003 compared to fiscal 2002, primarily due to decreased demand for broadband connectivity systems and components, an overall weakness in the telecommunications equipment industry and product lines sold or shutdown in fiscal 2002 and 2001. In fiscal 2002, economic and industry weakness also led to a sales decrease of $1,095.7 million, or 60.5%, compared to fiscal 2001.

During fiscal 2003, operating loss for the Broadband Infrastructure and Access segment decreased by 86.7% to $(27.8) million compared to $(208.7) million in fiscal 2002. This improvement is primarily due to a significant reduction in the amount of our restructuring and impairment charges, the ongoing cost savings from our restructuring efforts and the divestiture of certain product lines. While sales decreased, margins increased due to a shift in product sales mix to higher margin products. We also benefited from production efficiencies and related production cost declines resulting from our decision to outsource portions of our manufacturing operations. During fiscal 2002, operating loss increased $109.5 million from fiscal 2001 due to a decrease in sales volume and an unfavorable shift in product sales mix.

During fiscal 2003, depreciation and amortization decreased $15.1 million compared to fiscal 2002. This decrease is the result of our restructuring efforts in fiscal 2003 and fiscal 2002, which led to a reduction in our property, plant and equipment balances.

Capital expenditures decreased $5.8 million (70.7%) and $178.2 million (95.6%), in fiscal 2003 and 2002, respectively. The decrease in fiscal 2003 and 2002 was a result of our company-wide efforts to limit capital expenditures in light of the industry downturn.

Integrated Solutions Segment

Detailed information regarding our Integrated Solutions segment is provided in the following table:

	(Dollars in millions) For the years ended October 31,		
	2003	2002	2001
External sales	$286.9	$332.6	$592.0
Operating loss(1)	(1.7)	(32.0)	(45.3)
Depreciation and amortization	3.5	10.4	20.6
Capital expenditures	3.2	4.4	13.0

	At October 31,		
	2003	2002	2001
Assets	$208.5	$269.5	$403.7

(1) Operating loss excludes certain charges and expenses not allocated to the segments as described in Note 14 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Integrated Solutions sales decreased $45.7 million, or 13.7%, in fiscal 2003 compared to fiscal 2002. Sales decreased in fiscal 2002 compared to fiscal 2001 by $259.4 million, or 43.8%. During fiscal 2003 and 2002, many of our customers reduced their spending budgets as well as focused on improving their existing infrastructure rather than building new capacity. In addition, we shifted the market focus for our software products away from competitive local exchange carriers and into next-generation service providers, enterprises and media and content providers. This transition led to a decline in software sales in fiscal 2003 as well as fiscal 2002.

During fiscal 2003, operating loss for the Integrated Solutions segment decreased $30.3 million compared to fiscal 2002. Fiscal 2002 operating loss decreased by $13.3 million compared to fiscal 2001. The decrease in operating loss for both years was primarily due to cost savings achieved as a result of our restructuring initiatives in fiscal 2003, 2002, and 2001.

Depreciation and amortization decreased by $6.9 million in fiscal 2003 and decreased by $10.2 million in fiscal 2002. The fiscal 2003 and 2002 decrease is the result of our restructuring efforts, which reduced the amount of property plant and equipment.

Capital expenditures decreased $1.2 million, or 27.3%, and $8.6 million, or 66.2%, in fiscal 2002 and 2001, respectively. These decreases were a result of our company-wide efforts to limit capital expenditures in light of the industry downturn.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions, and estimates that affect the amounts reported in our Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in preparing the Consolidated Financial Statements. We consider the accounting policies described below to be our most critical accounting policies because these policies are impacted significantly by estimates we make. We base our estimates on historical experience or various assumptions that are believed to be reasonable under the circumstances, and the results form the basis for making judgments about the reported values of assets, liabilities, revenues and expenses. Actual results may materially differ from these estimates.

Inventories: We state our inventories at the lower of first-in, first-out cost or market. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with current or committed inventory levels. Our reserve requirements generally increase as our projected demand requirements decrease due to market conditions, technological and product life cycle changes as well as longer than previously expected usage periods for previously sold equipment. We have

experienced significant changes in required reserves in recent periods due primarily to adverse market conditions. It is possible that significant increases in inventory reserves may be required in the future if there is a further decline in market conditions. Alternatively, if we are able to sell previously reserved inventory, we may find it necessary to reverse a portion of the reserves. Changes in inventory reserves are recorded as a component of cost of sales. As of October 31, 2003 and 2002, we had $45.6 and $93.9 million, respectively, reserved against our inventories, which represents 39.6% and 49.7%, respectively, of total inventory on-hand.

Long-Lived Assets & Goodwill: Prior to fiscal 2003, we evaluated property and equipment and identifiable intangibles for potential impairment in compliance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* In fiscal 2003, we adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* We record impairment losses on long-lived assets used in operations when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a significant decline in our market value, or significant reductions in projected future cash flows. In assessing the recoverability of our long-lived assets, we compare the carrying value to the undiscounted future cash flows the assets are expected to generate. If the total of the undiscounted future cash flows is less than the carrying amount of the assets, we write down such assets based on the excess of the carrying amount over the fair value of the assets. Fair value is generally determined by calculating the discounted future cash flows, including long-term forecasts of the amounts and timing of overall market growth and our percentage of that market, grouping of assets, discount rate and terminal growth rates. Changes in these estimates could have a material adverse effect on the assessment of our long-lived assets, thereby requiring us to write down the assets. Write-downs of long-lived assets are recorded as impairment charges and are a component of operating expenses. See Note 11 to the Consolidated Financial Statements in Item 8 of this Form 10-K for details on our impairment charges.

We adopted SFAS No. 142, Goodwill and Other Intangible Assets during 2002. We are required to test goodwill for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process: step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, step two requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss, which is a component of operating expenses. Fair value of the reporting units was determined using the income approach. Under the income approach, value is dependent on the present value of future economic benefits to be derived from ownership. The income approach requires significant estimates about future cash flows and discount rates. See Note 12 to the Consolidated Financial Statements in Item 8 of this Form 10-K for information about the results of the goodwill impairment tests. At October 31, 2003 and 2002, $4.8 million and $3.8 million, respectively, of goodwill remained on our books, related solely to our Integrated Solutions segment.

Restructuring Accrual: During fiscal 2003 and 2002, we recorded significant restructuring charges representing the direct costs of exiting certain product lines or businesses and the costs of downsizing our business. Prior to January 1, 2003, such charges were established in accordance with EITF 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). On January 1, 2003, we adopted SFAS No. 146 and record restructuring charges based on that standard (See Recently Issued Accounting Pronouncements for a discussion of this standard). Restructuring charges represent our best estimate at the date the charges were taken. Significant judgment is required in estimating the costs of disposing of excess facilities, both leased and owned facilities. For example, in estimating the restructuring costs for excess facilities, we make certain assumptions with respect to when a facility will be subleased or sold, the amount of sublease income or the sales price, and the amount of any fees or other transaction costs to be incurred. Adjustments for changes in assumptions are recorded as a component of operating expenses in the period they become known. Changes in assumptions could have a material effect on our restructuring accrual as well as our consolidated results of operations.

Revenue Recognition: We recognize revenue when persuasive evidence of a final agreement exists, delivery has occurred, the selling price is fixed or determinable and collectibility is reasonably assured. Revenue from product sales is primarily recognized at the time of delivery and acceptance, and after consideration of all the terms and conditions of the customer contract. Revenue from services consists of fees for systems requirements, system design and analysis, customization and installation services, ongoing system management, system enhancements, service bureau processing, facilities management and maintenance. Services revenue is recognized as the services are performed, primarily on a time and materials basis and to a lesser extent on a fixed fee basis over the term of the services provided. Revenue from maintenance contracts is recognized ratably over the term of the agreement, generally one year. Revenue from the licensing of software rights is recognized at the time of delivery of the software to the customer, provided that we have no remaining service obligations, collectibility is reasonably assured and the fees are fixed and determinable. Where there are service obligations that are essential to the functionality of the software installed, license fees are recorded over the term of the initial customization period.

The assessment of collectibility is particularly critical in determining whether or not revenue should be recognized in the current market environment. As part of the revenue recognition process, we determine whether trade and notes receivable are reasonably assured of collection based on various factors, including an evaluation of whether there has been deterioration in the credit quality of our customers, which could result in us being unable to collect or sell the receivables. In situations where it is unclear as to whether we will be able to sell or collect the receivable, revenue and related costs are deferred. Costs are recognized when it has been determined that the collection of the receivable is unlikely.

We record provisions against our gross revenue for estimated product returns and allowances in the period when the related revenue is recorded. These estimates are based on factors that include, but are not limited to, historical sales returns, analyses of credit memo activities, current economic trends and changes in our customers demand. Should our actual product returns and allowances exceed our estimates, additional reductions to our revenue would result.

Allowance for Uncollectible Accounts: We are required to estimate the collectibility of our trade receivables and notes receivable. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past due balances. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers financial condition. Through these evaluations we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but are not limited to, current economic trends, historical payment and bad debt write-off experience. Significant increases in reserves have been recorded in recent periods and may occur in the future due to deteriorating market conditions. We are not able to predict changes in the financial condition of our customers and if circumstances related to our customers deteriorate, our estimates of the recoverability of our receivables could be materially affected and we may be required to record additional allowances. Alternatively, if we provided more allowances than are ultimately required, we may reverse a portion of such provisions in future periods based on our actual collection experience. Changes in the allowance are recorded as a component of operating expenses. As of October 31, 2003 and 2002, we had $23.5 million and $33.9 million, respectively, reserved against our accounts receivable, which represents 17.5% and 22.8%, respectively, of total accounts receivable.

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

reserves. Alternatively, if we provide more reserves than we need, we may reverse a portion of such provisions in future periods. Changes in warranty reserves are recorded as a component of cost of sales. As of October 31, 2003 and 2002, we reserved $13.4 and $13.1 million, respectively, related to future estimated warranty costs.

Income Taxes and Deferred Taxes: We currently have significant deferred tax assets as a result of net operating loss carryforwards, tax credit carryforwards and temporary differences between taxable income on our income tax returns and income before income taxes under U.S. generally accepted accounting principles. A deferred tax asset generally represents future tax benefits to be received when these carryforwards can be applied against future taxable income or when expenses previously reported in our financial statements become deductible for income tax purposes.

In the third quarter of fiscal 2002, we recorded a full valuation allowance against our deferred tax assets because we concluded that it was more likely than not that we would not realize these assets. Our decision was based on the cumulative losses we had incurred to that point as well as the full utilization of our loss carryback potential. From the third quarter of fiscal 2002 to date, we have maintained our policy of providing a full valuation allowance against all future tax benefits produced by our operating results. We expect to continue to provide a full allowance on any future tax benefits until we can sustain a level of profitability that demonstrates our ability to utilize these assets.

As of October 31, 2003 and 2002, our deferred tax assets and the related valuation allowance were $751.0 million and $711.3 million, respectively. See Note 10 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a further discussion of the accounting treatment for income taxes.

Litigation Reserves: As of October 31, 2003 and 2002, we had recorded approximately $9.1 million and $16.9 million, in loss reserves for pending litigation. This reserve was based on the application of SFAS No. 5, Accounting for Contingencies, which requires us to record a reserve if we believe an adverse outcome is probable and the amount of the probable loss is capable of reasonable estimation. As explained in Note 13 to the Consolidated Financial Statements, and at Part I, Item 3 of this Form 10-K (Legal Proceedings), we are a party to numerous lawsuits, proceedings and claims. Litigation by its nature is uncertain and the determination of whether any particular case involves a probable loss or the amount thereof requires the exercise of considerable judgment, which is applied as of a certain date. Accordingly, if our assumptions or conclusions are incorrect, the amount of the loss incurred could exceed the amount we have reserved, which could have a material adverse impact on our business, results of operations or financial condition. In addition, the required reserves may change in the future due to new developments in each matter or if we determine to change our strategy with respect to any particular matter.

Recently Issued Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supersedes SFAS 121. SFAS 144 primarily addresses significant issues relating to the implementation of SFAS

121 and develops a single accounting model for long-lived assets to be disposed of, whether primarily held, used or newly acquired. The provisions of SFAS 144 will be effective for fiscal years beginning after December 15, 2001. We adopted this standard in first quarter of fiscal year 2003. In fiscal 2003, we wrote-down $15.6 million of assets by applying SFAS 144. Prior to adopting this standard, we wrote down long-lived assets, excluding goodwill, by $212.0 and $207.2 million in fiscal 2002 and 2001, respectively, by applying SFAS No. 121.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 superseded Emerging Issues Task Force (EITF) No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The principal difference between SFAS No. 146 and EITF No. 94-3 relates to when an entity can recognize a liability related to exit or disposal costs. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when the liability is incurred. EITF No. 94-3 allowed a liability related to an exit or disposal activity to be recognized on the date an entity commits to an exit plan. We adopted this standard on January 1, 2003, which was the standard s effective date. Adoption of the standard did not materially impact our consolidated financial results or financial position.

In November 2002, the FASB issued Financial Interpretation No. (FIN) 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others*, which requires a guarantor to recognize and measure certain types of guarantees at fair value. In addition, FIN 45 requires the guarantor to make new disclosures for these guarantees and other types of guarantees that are not subject to the initial recognition and initial measurement provisions. The disclosure requirements are effective for financial statements with interim or annual periods ended after December 15, 2002, while the recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We adopted the initial recognition and measurement provision as well as the disclosure provision of FIN 45 during the first quarter of fiscal year 2003. The initial recognition and measurement provisions did not have a material impact on our consolidated financial results or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. The provisions of SFAS No. 148 amend SFAS No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition to a fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 also expands the disclosure requirements of SFAS No. 123 by requiring more detailed disclosure in both annual and interim financial statements. The transition provisions of SFAS No. 148 will not have a material impact on our financial results, as we do not plan to adopt the fair value-based accounting provisions of SFAS No. 123, which is commonly referred to as expensing of stock options. The disclosure provisions of SFAS No. 148 are effective for interim periods beginning after December 15, 2002. Accordingly, we adopted the disclosure provisions of this standard during the second quarter of fiscal year 2003.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* , which requires companies to consolidate certain types of variable interest entities. A variable interest entity is an entity that has inadequate invested equity at risk to meet expected future losses, or whose holders of the equity investments lack any of the following three characteristics: (i) the ability to make our decisions about the entity s activities; (ii) the obligation to absorb the entity s losses if they occur; or (iii) the right to receive the entity s future returns if they occur. FIN 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created before February 1, 2003, the provisions of the interpretation are effective for financial statements issued for the first period ending after December 15, 2003, or March 15, 2004, depending on the nature of the variable interest entity. FIN 46 is not expected to have a material impact on our consolidated financial position or results of operations.

Liquidity and Capital Resources

Cash

Cash and cash equivalents, primarily short-term investments in commercial paper with maturities of less than 90 days had a balance of $720.0 million at October 31, 2003, which is an increase of $441.1 million compared to October 31, 2002. In addition, we held $35.5 million of U.S. government securities at October 31, 2003, compared to none at October 31, 2002. The major sources of cash during fiscal 2003 were $142.7 million in income tax refunds and the net proceeds of $355.5 million from our convertible note offering completed on June 4, 2003. These cash inflows were partially offset by $67.6 million of net property, plant and equipment additions.

As of October 31, 2003, we had restricted cash of $20.0 million compared to $177.0 million of restricted cash as of October 31, 2002, a decrease of $157.0 million. Our restricted cash decreased by $148.2 million as a result of our purchase five properties subject to synthetic operating leases and $14.3 million to pay a guarantee of a customer note receivable. Restricted cash represents cash pledged to various financial institutions to secure certain of our obligations, and is not available to us for working capital. The majority of our restricted cash represents collateral for letters of credit and lease obligations. Restricted cash is expected to become available to us upon satisfaction of the obligations pursuant to which the letters of credit or guarantees were issued. We are entitled to the interest earnings on our restricted cash balances.

Cash and cash equivalents were $278.9 million as of October 31, 2002, which was a decrease of $69.7 million compared to October 31, 2001. The major uses of cash during fiscal 2002 were a

$177.0 million net increase in restricted cash (which reduced the balance in cash and cash equivalents), $25.6 million in property, plant and equipment additions, and $208.9 million used to pay current liabilities as well as net cash losses from operations. These cash outflows were partially offset by $259.4 million provided from income tax refunds, and $79.6 million from more effective working capital management such as account receivable collections, lower inventory requirements and lower prepaid assets. In addition, we received $68.6 million on the sale of available-for-sale securities during fiscal 2002.

Finance-Related Transactions

On June 4, 2003, we issued $400.0 million of convertible unsecured subordinated notes in two separate transactions pursuant to Rule 144A under the Securities Act of 1933. This issuance was made through an initial offering of $350.0 million of convertible notes on May 29, 2003, and the subsequent exercise in full by the underwriters of such offering of their option to purchase an additional $50.0 million of convertible notes. The net proceeds to us from this offering were $355.5 million after underwriting discounts of $10.0 million and the net payment for the purchased call options and warrant transactions described below. In the first transaction, we issued $200.0 million of 1.0% fixed rate convertible unsecured subordinated notes that mature on June 15, 2008. In the second transaction, we issued $200.0 million of convertible unsecured subordinated notes that have a variable interest rate and mature on June 15, 2013. The interest rate for the variable rate notes is equal to 6-month LIBOR plus 0.375%. The interest rate for the variable rate notes will be reset on each semi-annual interest payment date, which are June 15 and December 15 of each year beginning on December 15, 2003, for both the fixed and variable rate notes. The initial interest rate on the variable note is 1.59625% for the period ending December 15, 2003. The holders of both the fixed and variable rate notes may convert all or some of their notes into shares of our common stock at any time prior to maturity at a conversion price of $4.013 per share. We may not redeem the fixed rate notes prior to their maturity date. We may redeem any or all of the variable rate notes at any time on or after June 23, 2008.

Concurrent with the issuance of the fixed and variable rate notes, we purchased five and ten-year call options on our common stock to reduce the potential dilution from conversion of the notes. Under the terms of these call options, which become exercisable upon conversion of the notes, we have the right to purchase from the counterparty at a purchase price of $4.013 per share the aggregate number of shares that we are obligated to issue upon conversion of the fixed and variable notes, which is a maximum of 99.7 million shares. We also have the option to settle the call options with the counterparty through a net a share settlement or cash settlements, either of which would be based on the extent to which the then-current market price of our common stock exceeds $4.013 per share. The total cost of all the call options was $137.3 million, which is recorded in shareowners investment. The cost of the call options was partially offset by the sale of warrants to acquire shares of our common stock with terms of five and ten years to the same counterparty with whom we entered into the call options. The warrants are exercisable for an aggregate of 99.7 million shares at an exercise price of $5.28 per share. The warrants become exercisable upon conversion of the notes, and may be settled, at our option, either through a net share settlement or a net cash settlement, either of which would be based on the extent which the then-current market price of our common stock exceeds $5.28 per share. The gross proceeds from the sale of the warrants were $102.8 million, which was recognized in shareowners investment. The call options and the warrants are subject to early expiration upon conversion of the notes. The net effect of the call options and the warrants is to either reduce the potential dilution from the conversion of the notes (if we elect net share settlement) or to increase the net cash proceeds of the offering (if we elect net cash settlement) if the notes are converted at a time when the current market price of our common stock is greater than $4.013 per share.

We plan to use the cash proceeds from this offering for general corporate purposes and strategic opportunities, including financing for possible acquisitions or investments in complementary businesses, technologies or products.

We were party to an operating lease agreement related to our headquarters facility in Eden Prairie, Minnesota. This lease was set to expire in October of fiscal 2006. This operating lease, which is sometimes referred to as a synthetic lease, contained a minimum residual value guarantee at the end of the lease term, and also gave us a purchase option at the end of the lease term. During the third quarter of fiscal 2003, we purchased this property for an aggregate purchase price of $46.8 million. The entire purchase price was paid out of restricted cash.

In addition, during fiscal 2003, we purchased a total of four other properties that we leased under synthetic leases. Two properties were purchased for $55.9 million and the remaining two were purchased for $45.5 million. All of the properties were purchased using restricted cash previously pledged to secure the lease obligations. The two properties that were purchased for $55.9 million were recorded at their fair market value of $15.7 million, which resulted in a $5.2 million impairment charge and a $35.0 million reduction in our restructuring accrual as we previously recognized this loss in a prior fiscal year. These two properties are currently classified as assets held for sale on our consolidated balance sheet because we intend to sell them within one year from the date of purchase. The remaining two properties that were purchased for $45.5 million were immediately sold for total proceeds of $15.3 million, which was available to us as unrestricted cash. The difference between the purchase price for these two properties of $45.5 million and the sale price of $15.3 million was previously included in our restructuring accrual.

Capital Expenditure and Investment Commitments

As of October 31, 2003, we had commitments (both cancelable and non-cancelable) for capital expenditures related to the ongoing operation of our business of approximately $5.6 million. These commitments primarily reflect future equipment purchases as well as improvements to existing buildings and facilities. The commitments are estimated to be paid by the end of fiscal 2004. We intend to fund these expenditures from cash on hand.

Vendor Financing

We have worked with customers and third-party financiers to find a means of financing projects by negotiating financing arrangements. As of October 31, 2003, 2002 and 2001, we had commitments to extend credit of $26.5 million, $58.0 million and $166.9 million for such arrangements, respectively. The total amount drawn and outstanding under the commitments was approximately $23.2 million, $20.9 million and $80.2 million, respectively, as of October 31, 2003, 2002 and 2001. The commitments to extend credit are conditional agreements generally having fixed expiration or termination dates and specific interest rates, conditions and purposes. These commitments may expire without being drawn. We regularly review all outstanding commitments, and the results of these reviews are considered in assessing the overall risk for possible credit losses. At October 31, 2003, we have recorded approximately $19.4 million in loss reserves in the event of non-performance related to these financing arrangements.

In connection with the sale of a participation interest in a customer note receivable for $14.3 million, we guaranteed the payment obligation of the customer to the purchaser of the participation interest. During fiscal 2003, the underlying customer defaulted on the note receivable. Therefore, we were required to pay the purchaser of the participation interest $14.5 million, which was the outstanding principal and interest on the note receivable at the time the customer defaulted. Of the $14.5 million payment, we used $14.3 million from our restricted cash that was previously pledged to secure our guarantee with the remainder being paid from unrestricted cash. This note receivable was fully reserved for as part our allowance for doubtful accounts.

Working Capital and Liquidity Outlook

Our main source of liquidity continues to be our unrestricted cash on hand. We believe that our current unrestricted cash on hand should be adequate to fund our working capital requirements, planned capital expenditures and restructuring costs through fiscal 2004. If we are able to maintain break-even or positive cash flow from operations, our existing cash should be adequate to fund such expenditures for several years.

We believe that our entire restructuring accrual of $33.4 million as of October 31, 2003, will have to be paid from our unrestricted cash (shown as cash and cash equivalents on our balance sheet) as follows:

- $6.8 million for employee severance will be paid in fiscal 2004;

- $9.8 million for facilities consolidation costs, which relate principally to excess leased facilities, will be paid in fiscal 2004; and

- the remainder of $16.8 million, which also relates to excess leased facilities, will be paid over the respective lease terms ending through 2015.

We also believe that our unrestricted cash on hand will also enable us to pursue strategic opportunities, including possible product line or business acquisitions. However, if the cost of one or more acquisition opportunities exceeds our existing capital resources, additional sources of capital may be required. We do not currently have any committed lines of credit or other available credit facilities, and it is uncertain whether such facilities could be obtained in sufficient amounts or on acceptable terms. Any plan to raise additional capital may involve an equity-based or equity-linked financing, such as another issuance of convertible debt or the issuance of common stock or preferred stock, which would be dilutive to existing shareholders. Following the completion of our convertible note financing transaction in fiscal 2003, we have approximately 130 million shares of common stock available for issuance under our articles of incorporation after taking into account our share reserves for our stock option plans and employee stock purchase plan. Accordingly, any plan to raise capital through the issuance of shares of common stock or securities convertible into common stock may require an amendment to our articles of incorporation, which would require the approval of shareowners. Our proxy statement for our 2004 Annual Meeting of Shareowners includes a proposal to increase our authorized shares of common stock by 1.2 billion.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in security prices, foreign exchange rates and interest rates. Market fluctuations could affect our results of operations and financial condition adversely. We, at times, reduce this risk through the use of derivative financial instruments. We do not enter into derivative financial instruments for the purpose of speculation.

We are exposed to interest rate risk as a result of issuing $200.0 million of convertible unsecured subordinated notes on June 4, 2003, that have a variable interest rate. The interest rate on these notes is equal to 6-month LIBOR plus 0.375%. The interest rate on these notes is reset semiannually on each interest payment date, which is June 15 and December 15 of each year until their maturity in fiscal 2013. Assuming interest rates rise an additional 1%, 5% and 10%, our annual interest expense would increase by $2.0 million, $10.0 million and $20.0 million, respectively.

As described in Note 3 to the Consolidated Financial Statements in Item 8 of this Form 10-K, we maintain an investment portfolio of available-for-sale equity securities of $4.7 million. The values recorded for these investments are subject to market price volatility. We monitor these investments for impairment and make appropriate reductions in carrying value when necessary.

We offer a non-qualified 401(k) excess plan to allow certain executives to defer earnings in excess of the annual individual contribution and compensation limits on 401(k) plans imposed by the U.S. Internal Revenue Code. Under this plan, the salary deferrals and our matching contributions are not placed in a separate fund or trust account. Rather, the deferrals represent our unsecured general obligation to pay the balance owing to the executives upon termination of their employment. In addition, the executives are able to elect to have their account balances indexed to a variety of diversified mutual funds (stock, bond and balanced), as well as to our common stock. Accordingly, our outstanding deferred compensation obligation under this plan is subject to market risk. As of October 31, 2003, our outstanding deferred compensation obligation related to the 401(k) excess plan was $7.3 million, of which approximately $1.4 million was indexed to ADC common stock. Assuming a 20%, 50% or 100% aggregate increase in the value of the investment alternatives to which the account balances may be indexed, our outstanding deferred compensation obligation would increase by $1.5 million, $3.7 million and $7.3 million, respectively, and we would incur an expense of a like amount.

We also are exposed to market risk from changes in foreign exchange rates. To mitigate the risk from these exposures, we have instituted a balance sheet hedging program. The objective of this program is to protect our net monetary assets and liabilities in non-functional currencies from fluctuations due to movements in foreign exchange rates. The program operates in markets where hedging costs are beneficial. We attempt to minimize exposure to currencies in which hedging instruments are unavailable or prohibitively expensive by managing our operating activities and net asset positions. The majority of hedging instruments utilized are forward contracts with maturities of less than one year. Foreign exchange contracts reduce our overall exposure to exchange rate movements, since gains and losses on these contracts offset losses and gains on the underlying exposure. See Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K for information about our foreign exchange hedging program.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Auditors

Board of Directors and Shareowners
ADC Telecommunications, Inc.

We have audited the accompanying consolidated balance sheets of ADC Telecommunications, Inc. and subsidiaries as of October 31, 2003 and 2002, and the related consolidated statements of income, shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of ADC Telecommunications, Inc., and subsidiaries as of October 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations and whose report dated November 21, 2001, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ADC Telecommunications, Inc. and subsidiaries at October 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed above, the consolidated financial statements of ADC Telecommunications, Inc., and subsidiaries as of October 31, 2001, and for the year then ended were audited by other auditors who have ceased operations. As described in Note 12, these consolidated financial statements have been revised to include the transitional disclosures required by Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets , which was adopted by the Company as of November 1, 2001. We have audited the disclosures in Note 12 and, in our opinion, the disclosures for fiscal 2001 in Note 12 are appropriate. However, we were not engaged to audit, review or apply any procedures to the fiscal 2001 consolidated financial statements of the Company other than with respect to such disclosures, and accordingly, we do not express an opinion or any other form of assurance on the fiscal 2001 consolidated financial statements taken as a whole.

Ernst & Young LLP

Minneapolis, Minnesota
December 1, 2003

Note: The following report is a copy of a report previously issued by Arthur Andersen LLP (Andersen), which report has not been reissued by Andersen. Certain financial information for the period ended October 31, 2001 was not reviewed by Andersen and includes: (i) reclassifications to conform to our fiscal 2003 financial statement presentation and (ii) additional disclosures to conform with new accounting pronouncements and SEC rules and regulations.

Report of Independent Public Accountants

To ADC Telecommunications, Inc.:

We have audited the accompanying consolidated balance sheets of ADC Telecommunications, Inc. (a Minnesota corporation) and subsidiaries as of October 31, 2001 and 2000, and the related consolidated statements of operations, shareowners investment and cash flows for each of the three years in the period ended October 31, 2001. These financial statements are the responsibility of ADC s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to the above present fairly, in all material respects, the financial position of ADC Telecommunications, Inc., and subsidiaries as of October 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Minneapolis, Minnesota
November 21, 2001

ADC Telecommunications, Inc. and Subsidiaries
Consolidated Statements of Operations
(in millions, except earnings per share)

	For the years ended October 31,		
	2003	**2002**	**2001**
Net Sales:			
Products	$571.7	$ 809.3	$ 2,044.5
Services	201.5	238.4	358.3
Total net sales	773.2	1,047.7	2,402.8
Cost of Sales:			
Products	316.6	593.7	1,358.2
Services	165.2	207.5	319.6
Total cost of sales	481.8	801.2	1,677.8
Gross Profit	291.4	246.5	725.0
Operating Expenses:			
Research and development	108.6	182.8	287.3
Selling and administration	222.1	374.0	715.3
Goodwill amortization			56.6
Impairment charges	15.6	348.3	501.7
Restructuring charges	41.8	219.6	195.4
Total expenses	388.1	1,124.7	1,756.3
Operating Loss	(96.7)	(878.2)	(1,031.3)
Other Income (Expense), Net:			
Interest income (expense), net	6.3	8.4	(2.2)
Loss on sale or shutdown of product lines	(1.4)	(6.7)	(81.9)
Gain (loss) on write-down or sale of investments, net	3.8	16.9	(785.7)
Loss on sale of fixed assets	(1.0)	(11.5)	(1.3)
Gain on patent infringement settlement		26.2	
Other, net	6.9	(37.3)	(18.3)
Loss Before Income Taxes	(82.1)	(882.2)	(1,920.7)
Provision (Benefit) for Income Taxes	(5.4)	262.8	(633.0)
Net Loss	$ (76.7)	$(1,145.0)	$(1,287.7)
Average Common Shares Outstanding (Basic and Diluted)	803.4	795.6	787.0
Loss Per Share (Basic and Diluted)	$ (.10)	$ (1.44)	$ (1.64)

The accompanying notes are an integral part of these Consolidated Financial Statements.

ADC Telecommunications, Inc. and Subsidiaries
Consolidated Balance Sheets
(in millions)

	October 31, 2003	October 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 720.0	$ 278.9
Available-for-sale securities	26.7	0.5
Accounts receivable, net of reserves of $23.5 and $33.9	110.6	115.1
Unbilled revenues	30.6	25.8
Inventories, net of reserves of $45.6 and $93.9	69.5	94.9
Prepaid income taxes		126.6
Prepaid and other current assets	48.6	44.5
Total current assets	1,006.0	686.3
Property and Equipment, Net	192.3	206.8
Assets Held for Sale	25.1	20.0
Restricted Cash	20.0	177.0
Available-for-sale securities	19.5	
Other Assets	34.0	54.1
Total assets	$1,296.9	$1,144.2
LIABILITIES AND SHAREOWNERS INVESTMENT		
Current Liabilities:		
Accounts payable	$ 49.3	$ 73.0
Accrued compensation and benefits	54.9	74.1
Other accrued liabilities	119.6	110.8
Restructuring accrual	33.4	124.2
Notes payable	8.3	15.7
Total current liabilities	265.5	397.8
Long-Term Notes Payable	400.0	10.8
Other Long-Term Liabilities	3.7	3.4
Total liabilities	669.2	412.0
Commitments and Contingencies		
Shareowners Investment:		
Common stock, $0.20 par value; authorized 1,200.0 shares; issued and outstanding 806.6 and 799.6 shares	161.3	159.9
Paid-in capital	1,246.9	1,272.6
Accumulated deficit	(750.0)	(673.3)
Deferred compensation	(9.3)	(12.3)
Accumulated other comprehensive loss	(21.2)	(14.7)
Total shareowners investment	627.7	732.2
Total liabilities and shareowners investment	$1,296.9	$1,144.2

The accompanying notes are an integral part of these Consolidated Financial Statements.

ADC Telecommunications, Inc. and Subsidiaries
Consolidated Statements of Shareowners Investment
(in millions)

	Common Stock						
	Shares	**Amount**	**Paid-in Capital**	**Retained Earnings (Deficit)**	**Deferred Compensation**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance, October 31, 2000	770.3	$154.1	$954.0	$ 1,759.4	$(39.2)	$ 84.4	$ 2,912.7
Net income				(1,287.7)			(1,287.7)
Other comprehensive income, net of tax:							
Translation gain						12.4	12.4
Unrealized loss on securities, net of taxes of $(338.0)						(575.5)	(575.5)
Adjustment for write-down of securities, net of taxes of $302.1						514.4	514.4
Adjustment for sale of securities, net of taxes of $(6.9)						(11.8)	(11.8)
Total comprehensive income							(1,348.2)
Exercise of common stock options	6.9	1.4	27.6				29.0
Stock issued for business acquisitions	11.6	2.3	3.0				