

SPIRENT PLC
Form 20-F
June 17, 2003

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on June 17, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 12() or () OF THE SECURITIES
EXCHANGE ACT OF 1934**

or

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from [_____] to [_____]

Commission file number:

SPIRENT PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

**Spirent House
Crawley Business Quarter
Fleming Way, Crawley
West Sussex RH10 9QL
United Kingdom**

(Address of principal executive offices)

+44 (0)1293 767676

(Registrant's telephone number, including area code)

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

Edgar Filing: SPIRENT PLC - Form 20-F

Title of each class
American Depositary Shares
Ordinary Shares*

Name of each exchange
New York Stock Exchange
New York Stock Exchange*

*

Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 942,760,977 Ordinary shares of 3¹/₃p.

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

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

TABLE OF CONTENTS

	<u>Page</u>
ITEM 3. KEY INFORMATION	4
Selected Consolidated Financial Information of Spirent	4
Exchange Rate Information	8
Risk Factors	10
ITEM 4. INFORMATION ON THE COMPANY	18
Overview of Our Business	18
Communications Group	22
Network Products Group	26
Systems Group	29
Organizational Structure	33
Properties and Facilities	34
Intellectual Property	34
Materials	34
Regulatory and Other Government Requirements	34
Enforcement of Civil Liabilities	35
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	36
Overview	36
Year Ended December 31, 2002 Compared with the Year Ended December 31, 2001	43
Communications	44
Network Products	45

	Page
Systems	46
Year Ended December 31, 2001 Compared with the Year Ended December 31, 2000	49
Communications	49
Network Products	51
Systems	52
Discontinued Operation Sensing Solutions	52
Liquidity and Capital Resources	54
Contractual Obligations	56
Foreign Exchange	56
Research and Development	57
Factors That May Affect Future Results	57
Inflation	57
Differences Between UK GAAP and US GAAP	58
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	60
Directors	60
Senior Management	62
The Board of Directors and Committees of the Board	63
Compensation of Directors and Senior Management	64
Employees	65
Shares Held by Directors and Senior Management	66
Share Schemes and Related Information	67
2	
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	71
ITEM 8. FINANCIAL INFORMATION	73
ITEM 9. THE OFFER AND LISTING	74
ITEM 10. ADDITIONAL INFORMATION	76
Memorandum and Articles of Association	76
Material Contracts	76
Exchange Controls	78
Taxation	79
Documents on Display	84
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS	84
ITEM 15. CONTROLS AND PROCEDURES	87
ITEM 18. FINANCIAL STATEMENTS	88
ITEM 19. EXHIBITS	89

The items omitted from the table of contents for Form 20-F are either not applicable to this annual report or we have nothing to disclose in respect of that item.

You should rely only on the information contained in this annual report. We have not authorized anyone to provide you with information that is different. The information in this annual report may only be accurate on the date of this annual report.

ITEM 3. KEY INFORMATION**Selected Consolidated Financial Information of Spirent**

The selected consolidated profit and loss account data for each of the three years in the period ended December 31, 2002 and balance sheet data as of December 31, 2002 and 2001 set forth below are derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The profit and loss account data for the years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998 are derived from our audited consolidated financial statements. All of these financial statements have been audited by Ernst & Young LLP, our independent auditors. The selected consolidated financial data set forth below should be read in conjunction with "Item 5. Operating and Financial Review and Prospects," and our consolidated financial statements and notes thereto included elsewhere in this annual report.

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United Kingdom, or UK GAAP, which differ in certain respects from those generally accepted in the United States, or US GAAP. A description of the significant differences applicable to us and reconciliations of net income, shareholders' equity and cash flows are set forth in Note 37 of Notes to the Financial Statements.

4

Consolidated Profit and Loss Account Data

	Year ended December 31				
	2002	2001	2000	1999	1998
	(£ millions, except per share and per ADS amounts)				
Amounts in accordance with UK GAAP					
Turnover	558.9	801.8	696.7	544.5	470.2
Operating (loss)/profit	(970.5)	(733.2)	110.0	81.4	70.1
Other Information					
Exceptional items					
Goodwill impairment	923.3	724.6			
Other	41.6	34.9	2.2		
Goodwill amortization	56.1	86.6	25.7	8.6	0.9
Operating profit before goodwill amortization and exceptional items	50.5	112.9	137.9	90.0	71.0
Income from interests in					
Joint venture	7.4	9.6	13.3	9.5	11.5
Associates	1.0	1.3	2.7	2.3	1.7
Amortization of goodwill on associates	(0.2)	(0.1)			
(Loss)/profit on disposal and closure of operations	(48.4)	14.5	(18.1)	(6.7)	

Edgar Filing: SPIRENT PLC - Form 20-F

Year ended December 31

	Year ended December 31				
Provision against investment in own shares	(30.1)				
Profit on disposal of tangible fixed assets		3.2			
(Loss)/profit before interest	(1,040.8)	(707.9)	111.1	86.5	83.3
Net interest payable	(12.3)	(22.8)	(29.3)	(12.8)	(2.1)
(Loss)/profit before taxation	(1,053.1)	(730.7)	81.8	73.7	81.2
Taxation	(26.9)	(32.6)	(30.6)	(30.2)	(27.3)
Minority interest equity	(0.4)	(0.2)	(0.5)		
(Loss)/profit for the financial period	(1,080.4)	(763.5)	50.7	43.5	53.9
Basic (loss)/earnings per share (pence)	(117.12)	(83.43)	7.40	6.67	8.33
Headline earnings per share (pence)(1)	3.40	7.76	12.61	9.18	8.47
Diluted (loss)/earnings per share (pence)	(117.12)	(83.43)	7.18	6.39	8.29
Dividend per share (pence)	1.35	4.35	4.35	4.13	3.82
Dividend per share (US cents)	2.10	6.36	6.33	6.38	6.10
Dividend per ADS (pence)	5.40	17.40	17.40	16.52	15.28
Dividend per ADS (US cents)	8.40	25.44	25.32	25.52	24.40
Turnover by segment					
Continuing operations					
Performance Analysis	187.1	245.5	283.7	114.7	52.4
Service Assurance	128.3	185.1	5.5		
Communications	315.4	430.6	289.2	114.7	52.4
Network Products	164.7	170.4	181.4	158.1	149.2
Systems	78.8	124.0	135.4	149.6	149.2
	558.9	725.0	606.0	422.4	350.8
Discontinued operations		76.8	90.7	122.1	119.4
	558.9	801.8	696.7	544.5	470.2
Operating profit before goodwill amortization and exceptional items					
Continuing operations					
Performance Analysis	9.4	38.7	97.1	43.0	18.4
Service Assurance	21.4	44.7	1.5		
Communications	30.8	83.4	98.6	43.0	18.4

Edgar Filing: SPIRENT PLC - Form 20-F

Year ended December 31

Network Products	15.0	15.3	25.3	21.8	20.7
Systems	4.7	6.1	2.7	10.8	16.2
	50.5	104.8	126.6	75.6	55.3
Discontinued operations		8.1	11.3	14.4	15.7
	50.5	112.9	137.9	90.0	71.0

5

Amounts in accordance with US GAAP

(£ millions, except per share and per ADS amounts)
Year ended December 31

	2002	2001	2000	1999	1998
Net (loss)/income	(774.3)	(773.7)	(39.6)	2.2	28.7
Net (loss)/income per share					
Basic (pence):					
Continuing operations	(83.93)	(89.17)	(6.10)	(1.15)	3.53
Discontinued operations		4.62	0.32	1.49	0.90
Net (loss)/income	(83.93)	(84.55)	(5.78)	0.34	4.43
Diluted (pence):					
Continuing operations	(83.93)	(89.17)	(6.10)	(1.11)	3.51
Discontinued operations		4.62	0.32	1.44	0.90
Net (loss)/income	(83.93)	(84.55)	(5.78)	0.33	4.41
Dividend per share (pence)	4.35	4.35	4.24	3.91	3.58
Dividend per share (US cents)	6.49	6.33	6.29	6.22	5.93
Net (loss)/income per ADS					
Basic (pence):					
Continuing operations	(335.72)	(356.68)	(24.40)	(4.60)	14.12
Discontinued operations		18.48	1.28	5.96	3.60
Net (loss)/income	(335.72)	(338.20)	(23.12)	1.36	17.72
Diluted (pence):					
Continuing operations	(335.72)	(356.68)	(24.40)	(4.44)	14.06
Discontinued operations		18.48	1.28	5.76	3.58

Edgar Filing: SPIRENT PLC - Form 20-F

(£ millions, except per share and per ADS amounts)

Net (loss)/income	(335.72)	(338.20)	(23.12)	1.32	17.64
Dividend per ADS (pence)	17.40	17.40	16.96	15.64	14.32
Dividend per ADS (US cents)	25.96	25.32	25.16	24.88	23.72

- (1) Headline earnings per share has been calculated to exclude all exceptional items and attributable taxation (see Note 12 of Notes to the Financial Statements for the reconciliation of headline earnings to basic earnings.)

6

Consolidated Cash Flow Data

Year ended December 31

	2002	2001	2000	1999	1998

(£ millions)

Amount in accordance with UK GAAP

Net cash inflow from operating activities	76.9	141.2	125.7	101.7	77.2
Acquisitions and disposals	6.4	149.6	(536.6)	(232.9)	(28.1)
Financing	53.8	(152.8)	480.2	284.2	6.8

Amounts in accordance with US GAAP

Cash inflow from operating activities	60.7	96.4	83.9	72.9	52.3
Cash (outflow)/inflow on investing activities	(17.9)	91.9	(596.1)	(272.7)	(64.9)
Cash inflow/(outflow) from financing activities	13.8	(192.6)	452.5	258.7	(8.9)

Consolidated Balance Sheet Data

As at December 31

	2002	2001	2000	1999	1998

(£ millions)

Amounts in accordance with UK GAAP

Intangible assets	113.6	987.7	1,816.8	321.3	25.7
Other investments	2.1	34.1	33.4	12.3	5.7
Current assets	242.4	264.4	375.5	270.5	186.6
Total assets	531.5	1,486.4	2,415.5	757.9	357.2
Total liabilities	390.3	389.6	577.1	503.7	175.9
Current liabilities	109.3	178.0	219.4	269.6	93.7
Creditors due after more than one year	252.6	210.1	355.6	233.4	78.1

Edgar Filing: SPIRENT PLC - Form 20-F

As at December 31

Shareholders' funds	139.1	1,094.4	1,834.7	250.3	178.9
Share capital	31.3	31.1	30.9	20.8	20.5
Amounts in accordance with US GAAP					
Intangible assets	94.4	907.8	1,803.5	430.0	
Other investments					
Current assets	243.5	266.0	377.2	275.8	
Total assets	512.1	1,374.5	2,376.4	874.8	
Total liabilities	446.4	407.4	587.4	480.3	
Current liabilities					
Creditors due after more than one year	294.9	219.9	358.5	266.9	
Shareholders' funds	63.6	964.7	1,785.3	390.6	
Share capital	31.3	31.1	30.9	20.8	

7

Exchange Rate Information

We present our financial statements in UK pounds sterling. The financial statements of our WAGO joint venture are presented in euro; in 2000 these financial statements were presented in German Marks. The information set forth below with respect to pounds sterling to US dollar exchange rates is based on the noon buying rate for pounds sterling in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York. Also set forth below is exchange rate information pertaining to the euro and the German Mark, in each case being the closing middle market price against pounds sterling. These rates are provided solely for the convenience of the reader and are not the exchange rates used by us in the preparation of our consolidated financial statements included in this annual report.

US Dollar

The noon buying rate on June 2, 2003 was \$1.64 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

	High	Low
	(US dollars per pound sterling)	
May 2003	1.65	1.59
April 2003	1.60	1.55
March 2003	1.61	1.56
February 2003	1.65	1.57
January 2003	1.65	1.60
December 2002	1.61	1.56

The following table sets forth information about the noon buying rate for the last five years. The average rates for each year are calculated by using the rate on the last business day of each month during the relevant year.

Year ended December 31	High	Low	Average	End of year
	(US dollars per pound sterling)			
2002	1.61	1.41	1.51	1.61
2001	1.50	1.37	1.44	1.45
2000	1.65	1.40	1.51	1.50

Edgar Filing: SPIRENT PLC - Form 20-F

Year ended December 31	High	Low	Average	End of year
1999	1.68	1.55	1.61	1.62
1998	1.72	1.61	1.66	1.66

Fluctuations in the exchange rate between pounds sterling and US dollars affect the US dollar equivalent of the pound sterling denominated prices of our shares and, as a result, affect the market price of our ADSs in the United States.

Euro

The euro rate on June 2, 2003 was €1.39 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

High	Low
------	-----