

CommScope Holding Company, Inc.  
Form 10-Q  
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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 number 001 - 36146

CommScope Holding Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-4332098  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1100 CommScope Place, SE

Hickory, North Carolina

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(Address of principal executive offices)

28602

(Zip Code)

(828) 324-2200

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company) Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 17, 2017 there were 193,041,305 shares of Common Stock outstanding.

CommScope Holding Company, Inc.

Form 10-Q

June 30, 2017

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## Part 1 -- Financial Information (Unaudited)

## ITEM 1. Condensed Consolidated Financial Statements

CommScope Holding Company, Inc.  
Condensed Consolidated Statements of Operations  
and Comprehensive Income  
(Unaudited -- In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net sales	\$1,174,090	\$1,306,788	\$2,311,375	\$2,450,767
Operating costs and expenses:				
Cost of sales	701,306	753,029	1,383,765	1,449,917
Selling, general and administrative	207,369	234,333	418,923	443,530
Research and development	46,887	51,934	95,782	104,124
Amortization of purchased intangible assets	66,981	76,015	134,619	149,631
Restructuring costs, net	13,773	7,605	19,161	13,677
Asset impairments	—	—	—	15,293
Total operating costs and expenses	1,036,316	1,122,916	2,052,250	2,176,172
Operating income	137,774	183,872	259,125	274,595
Other income (expense), net	1,515	(14,653 )	(15,221 )	(14,352 )
Interest expense	(61,417 )	(74,113 )	(130,971 )	(146,675 )
Interest income	1,730	1,148	2,604	3,727
Income before income taxes	79,602	96,254	115,537	117,295
Income tax expense	(24,138 )	(34,293 )	(26,511 )	(42,754 )
Net income	\$55,464	\$61,961	\$89,026	\$74,541
Earnings per share:				
Basic	\$0.29	\$0.32	\$0.46	\$0.39
Diluted	\$0.28	\$0.32	\$0.45	\$0.38
Weighted average shares outstanding:				
Basic	193,092	192,241	193,555	191,996
Diluted	197,218	196,073	198,173	195,815
Comprehensive income:				
Net income	\$55,464	\$61,961	\$89,026	\$74,541
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	86,749	(46,591 )	127,100	(307 )
Pension and other postretirement benefit activity	(360 )	(2,404 )	(729 )	(3,135 )
Loss on net investment hedge	(2,996 )	—	(3,351 )	—
Available-for-sale securities	(2,132 )	(1,411 )	(823 )	(2,134 )
Total other comprehensive income (loss), net of tax	81,261	(50,406 )	122,197	(5,576 )
Total comprehensive income	\$136,725	\$11,555	\$211,223	\$68,965

See notes to unaudited condensed consolidated financial statements.



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CommScope Holding Company, Inc.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands, except share amounts)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$484,491	\$ 428,228
Accounts receivable, less allowance for doubtful accounts of \$18,838 and \$17,211, respectively	931,654	952,367
Inventories, net	529,604	473,267
Prepaid expenses and other current assets	146,375	139,902
Total current assets	2,092,124	1,993,764
Property, plant and equipment, net of accumulated depreciation of \$351,021 and \$303,734, respectively	475,297	474,990
Goodwill	2,810,738	2,768,304
Other intangible assets, net	1,694,282	1,799,065
Other noncurrent assets	103,535	105,863
Total assets	\$7,175,976	\$ 7,141,986
Liabilities and Stockholders' Equity		
Accounts payable	\$448,464	\$ 415,921
Other accrued liabilities	308,345	429,397
Current portion of long-term debt	—	12,500
Total current liabilities	756,809	857,818
Long-term debt	4,569,967	4,549,510
Deferred income taxes	189,914	199,121
Pension and other postretirement benefit liabilities	31,295	31,671
Other noncurrent liabilities	108,368	109,782
Total liabilities	5,656,353	5,747,902
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value: Authorized shares: 200,000,000; Issued and outstanding shares: None	—	—
Common stock, \$0.01 par value: Authorized shares: 1,300,000,000; Issued and outstanding shares: 193,029,472 and 193,837,437, respectively	1,970	1,950
Additional paid-in capital	2,311,374	2,282,014
Retained earnings (accumulated deficit)	(500,736 )	(589,556 )
Accumulated other comprehensive loss	(162,916 )	(285,113 )
Treasury stock, at cost: 4,010,752 shares and 1,129,222 shares, respectively	(130,069 )	(15,211 )
Total stockholders' equity	1,519,623	1,394,084
Total liabilities and stockholders' equity	\$7,175,976	\$ 7,141,986

See notes to unaudited condensed consolidated financial statements.

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## CommScope Holding Company, Inc.

## Condensed Consolidated Statements of Cash Flows

(Unaudited - In thousands)

	Six Months Ended June 30,	
	2017	2016
<b>Operating Activities:</b>		
Net income	\$89,026	\$74,541
Adjustments to reconcile net income to net cash generated by		
operating activities:		
Depreciation and amortization	190,453	200,497
Equity-based compensation	20,598	18,246
Deferred income taxes	(14,073 )	(48,319 )
Asset impairments	—	15,293
Changes in assets and liabilities:		
Accounts receivable	43,975	(137,532)
Inventories	(42,243 )	(18,386 )
Prepaid expenses and other assets	(1,773 )	10,139
Accounts payable and other liabilities	(120,777)	164,855
Other	24,847	5,929
Net cash generated by operating activities	190,033	285,263
<b>Investing Activities:</b>		
Additions to property, plant and equipment	(30,577 )	(32,184 )
Proceeds from sale of property, plant and equipment	4,978	3,740
Cash paid for acquisitions including purchase price adjustments, net of		
cash acquired	—	6,263
Other	6,778	1,656
Net cash used in investing activities	(18,821 )	(20,525 )
<b>Financing Activities:</b>		
Long-term debt repaid	(780,379)	(306,270)
Long-term debt proceeds	780,379	—
Debt issuance and modification costs	(8,363 )	—
Debt extinguishment costs	(14,800 )	(9,939 )
Cash paid for repurchase of common stock	(100,000)	—
Proceeds from the issuance of common shares under equity-based		
compensation plans	8,506	6,991
Tax withholding payments for vested equity-based compensation		
awards	(14,858 )	(2,796 )
Net cash used in financing activities	(129,515)	(312,014)
Effect of exchange rate changes on cash and cash equivalents	14,566	435
Change in cash and cash equivalents	56,263	(46,841 )
Cash and cash equivalent at beginning of period	428,228	562,884

Cash and cash equivalents at end of period	\$484,491	\$516,043
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See notes to unaudited condensed consolidated financial statements.

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## CommScope Holding Company, Inc.

## Condensed Consolidated Statements of Stockholders' Equity

(Unaudited - In thousands, except share amounts)

	Six Months Ended June 30,	
	2017	2016
<b>Number of common shares outstanding:</b>		
Balance at beginning of period	193,837,437	191,368,727
Issuance of shares under equity-based compensation plans	2,073,565	1,360,090
Shares surrendered under equity-based compensation plans	(396,010 )	(110,704 )
Repurchase of common stock	(2,485,520 )	—
Balance at end of period	193,029,472	192,618,113
<b>Common stock:</b>		
Balance at beginning of period	\$ 1,950	\$ 1,923
Issuance of shares under equity-based compensation plans	20	14
Balance at end of period	\$ 1,970	\$ 1,937
<b>Additional paid-in capital:</b>		
Balance at beginning of period	\$ 2,282,014	\$ 2,216,202
Issuance of shares under equity-based compensation plans	8,486	6,977
Equity-based compensation	20,579	18,135
Cumulative effect of change in accounting principle	295	—
Tax benefit from shares issued under equity-based compensation plans	—	6,190
Balance at end of period	\$ 2,311,374	\$ 2,247,504
<b>Retained earnings (accumulated deficit):</b>		
Balance at beginning of period	\$(589,556 )	\$(812,394 )
Net income	89,026	74,541
Cumulative effect of change in accounting principle	(206 )	—
Balance at end of period	\$(500,736 )	\$(737,853 )
<b>Accumulated other comprehensive loss:</b>		
Balance at beginning of period	\$(285,113 )	\$(171,678 )
Other comprehensive income (loss), net of tax	122,197	(5,576 )
Balance at end of period	\$(162,916 )	\$(177,254 )
<b>Treasury stock, at cost:</b>		
Balance at beginning of period	\$(15,211 )	\$(11,333 )
Net shares surrendered under equity-based compensation plans	(14,858 )	(2,796 )
Repurchase of common stock	(100,000 )	—
Balance at end of period	\$(130,069 )	\$(14,129 )
Total stockholders' equity	\$ 1,519,623	\$ 1,320,205

See notes to unaudited condensed consolidated financial statements.



CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

## 1. BACKGROUND AND BASIS OF PRESENTATION

### Background

CommScope Holding Company, Inc., along with its direct and indirect subsidiaries (CommScope or the Company), is a global provider of infrastructure solutions for the core, access and edge layers of communication networks. The Company's solutions and services for wired and wireless networks enable high-bandwidth data, video and voice applications. CommScope's global leadership position is built upon innovative technology, broad solution offerings, high-quality and cost-effective customer solutions, and global manufacturing and distribution scale.

### Basis of Presentation

The Condensed Consolidated Balance Sheet as of June 30, 2017, the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2017 and 2016, and the Condensed Consolidated Statements of Cash Flows and Stockholders' Equity for the six months ended June 30, 2017 and 2016 are unaudited and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The results of operations for these interim periods are not necessarily indicative of the results of operations to be expected for any future period or the full fiscal year.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and are presented in accordance with the applicable requirements of Regulation S-X. Accordingly, these financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements. The significant accounting policies followed by the Company are set forth in Note 2 within the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Annual Report). There were no changes in the Company's significant accounting policies during the three or six months ended June 30, 2017. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements.

Prior to January 1, 2017, the Company consolidated the operating results of the acquired BNS business based on the BNS fiscal reporting calendar that resulted in a reporting lag of one day for the year ended December 31, 2016. Effective January 1, 2017, the reporting lag was eliminated as a result of system conversions that were part of the BNS integration. The elimination of the reporting lag represents a change in accounting principle which the Company believes to be preferable because it provides more current information to the users of its financial statements. The Company determined that it was impracticable to apply the effects of the lag elimination to financial reporting periods prior to January 1, 2017. The cumulative effect of not retroactively applying this change in accounting, however, was immaterial as of January 1, 2017. Therefore, the Company reported the cumulative effect of the change in accounting principle in net income for the six months ended June 30, 2017 and did not retrospectively apply the effects of this change to prior periods.

Concentrations of Risk and Related Party Transactions

Net sales to Anixter International Inc. and its affiliates (Anixter) accounted for 12% and 11% of the Company's total net sales during the three and six months ended June 30, 2017, respectively. Net sales to Anixter accounted for 11% of the Company's total net sales during the three and six months ended June 30, 2016. Sales to Anixter primarily originate within the CommScope Connectivity Solutions (CCS) segment. Other than Anixter, no other direct customer accounted for 10% or more of the Company's total net sales for the three or six months ended June 30, 2017 or 2016.

Accounts receivable from Anixter represented approximately 12% of accounts receivable as of June 30, 2017. Other than Anixter, no direct customer accounted for 10% or more of the Company's accounts receivable as of June 30, 2017.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

### Product Warranties

The Company recognizes a liability for the estimated claims that may be paid under its customer warranty agreements to remedy potential deficiencies of quality or performance of the Company's products. These product warranties extend over periods ranging from one to twenty-five years from the date of sale, depending upon the product subject to the warranty. The Company records a provision for estimated future warranty claims as cost of sales based upon the historical relationship of warranty claims to sales and specifically identified warranty issues. The Company bases its estimates on assumptions that are believed to be reasonable under the circumstances and revises its estimates, as appropriate, when events or changes in circumstances indicate that revisions may be necessary. Such revisions may be material.

The following table summarizes the activity in the product warranty accrual, included in other accrued liabilities:

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2016	2017	2016
Product warranty accrual, beginning of period	\$20,180	\$17,689	\$21,631	\$17,964
Provision for warranty claims	2,028	2,468	4,231	4,519
Warranty claims paid	(2,029 )	(1,864 )	(5,718 )	(4,412 )
Foreign exchange	104	63	139	285
Product warranty accrual, end of period	\$20,283	\$18,356	\$20,283	\$18,356

### Commitments and Contingencies

The Company is either a plaintiff or a defendant in certain pending legal matters in the normal course of business. Management believes none of these legal matters will have a material adverse effect on the Company's business or financial condition upon final disposition.

In addition, the Company is subject to various federal, state, local and foreign laws and regulations governing the use, discharge, disposal and remediation of hazardous materials. Compliance with current laws and regulations has not had, and is not expected to have, a materially adverse effect on the Company's financial condition or results of operations.

### Asset Impairments

Goodwill is tested for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of the reporting unit may exceed its fair value. During the six months ended June 30, 2016, the Company recorded a \$15.3 million goodwill impairment charge as a result of the change in its reportable segments. The impairment was recorded in the CCS segment.

Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, based on the undiscounted cash flows expected to be derived from the use and ultimate disposition of the assets. Assets identified as impaired are carried at estimated fair value. Other than the goodwill impairment described above, there were no asset impairments identified during the three or six months ended June 30, 2017 or 2016.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

### Income Taxes

The effective income tax rate of 30.3% and 22.9% for the three and six months ended June 30, 2017, respectively, was lower than the statutory rate of 35.0% primarily due to the favorable impact of \$4.4 million and \$13.1 million of excess tax benefits related to equity-based compensation awards for the three and six months ended June 30, 2017, respectively. Such benefits, which were previously reflected in additional paid-in capital, are now recognized in income tax expense as a result of the adoption of Accounting Standards Update (ASU) No. 2016-09. See the discussion under Recent Accounting Pronouncements for further information regarding the adoption of this new accounting guidance. The effective income tax rate was also favorably affected by the impact of earnings in foreign jurisdictions that the Company does not plan to repatriate. These earnings are generally taxed at rates lower than the United States (U.S.) statutory rate. Offsetting these decreases for the three and six months ended June 30, 2017 was the effect of the provision for state income taxes.

The effective income tax rate of 35.6% and 36.4% for the three and six months ended June 30, 2016, respectively, was higher than the statutory rate of 35.0% primarily due to the provision for state income taxes as well as losses in certain jurisdictions where the Company did not recognize tax benefits due to the likelihood of them not being realizable. In addition, the effective income tax rate for the six months ended June 30, 2016 was affected by the impact of the goodwill impairment charge for which only partial tax benefits were recorded. These increases to the effective income tax rate were partially offset by the favorable impact of earnings in foreign jurisdictions that the Company does not plan to repatriate.

### Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on net income divided by the weighted average number of common shares outstanding plus the effect of potentially dilutive common shares using the treasury stock method. Potentially dilutive common shares include outstanding equity-based awards (stock options, restricted stock units and performance share units). Certain outstanding equity-based awards were not included in the computation of diluted earnings per share because the effect was either antidilutive or the performance conditions were not met (0.7 million shares and 0.5 million shares for the three and six months ended June 30, 2017, respectively, and 1.7 million shares and 1.6 million shares for the three and six months ended June 30, 2016, respectively). During the three and six months ended June 30, 2017, the Company repurchased 0.9 million shares and 2.5 million shares, respectively, of its common stock to reduce dilution from grants under its equity-based award programs. See Note 11 for more information on the share repurchase program.

The following table presents the basis for the earnings per share computations (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Numerator:				

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Net income for basic and diluted earnings per share	\$55,464	\$61,961	\$89,026	\$74,541
Denominator:				
Weighted average common shares outstanding - basic	193,092	192,241	193,555	191,996
Dilutive effect of equity-based awards	4,126	3,832	4,618	3,819
Weighted average common shares outstanding - diluted	197,218	196,073	198,173	195,815
Earnings per share:				
Basic	\$0.29	\$0.32	\$0.46	\$0.39
Diluted	\$0.28	\$0.32	\$0.45	\$0.38

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

#### Recent Accounting Pronouncements

##### Adopted During the Six Months Ended June 30, 2017

The Company adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting on January 1, 2017. The new standard simplifies several aspects of the accounting for employee equity-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Beginning January 1, 2017, the Company recognized all excess tax benefits in income tax expense. An income tax benefit of \$4.4 million and \$13.1 million was recognized for the three and six months ended June 30, 2017, respectively, under ASU No. 2016-09. The Company recognized a \$0.2 million, net of tax, cumulative effect adjustment to retained earnings as a result of its election to change its accounting policy to account for forfeitures as they occur. The impact of the adoption of ASU No. 2016-09 to the Condensed Consolidated Statements of Cash Flows was to present excess tax benefits or deficiencies as an operating activity rather than as a financing activity. The Company elected to present the impact on the Condensed Consolidated Statements of Cash Flows retrospectively; therefore, the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2016 reflects an increase to both net cash generated by operating activities and net cash used in financing activities of \$6.7 million.

The Company also adopted ASU No. 2016-15, Cash Flow Classification of Certain Cash Receipts and Cash Payments, as of January 1, 2017. This guidance amends or clarifies guidance on classification of certain transactions in the statement of cash flows, including classification of debt extinguishment costs and contingent consideration payments after a business combination. During the six months ended June 30, 2017, the impact of adoption on the Company's Condensed Consolidated Statements of Cash Flows was to present \$14.8 million of debt redemption premium paid as a financing activity rather than as an operating activity. The provisions of this new standard are required to be applied retrospectively; therefore, the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2016 reflects an increase to both net cash generated by operating activities and net cash used in financing activities of \$9.9 million.

##### Issued but Not Adopted

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by the employee and requires the other components of net benefit cost to be reported outside the subtotal of operating income. ASU No. 2017-07 is effective for the Company as of January 1, 2018 and must be applied retrospectively. While the Company is evaluating the impact of the new guidance on the consolidated financial statements, it expects the application of this new guidance to decrease operating income. For details on the components of the Company's annual net periodic benefit cost, see Note 10 to the Company's audited consolidated financial statements included in the Company's 2016 Annual Report.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test of Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under the new guidance, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will

recognize a goodwill impairment charge for the excess of the reporting unit's carrying amount over its fair value, up to the amount of goodwill allocated to that reporting unit. ASU No. 2017-04 is effective for the Company as of January 1, 2020 and early adoption is permitted. The Company is evaluating the impact of the new guidance on the consolidated financial statements and when it may be adopted.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The new guidance replaces the current incurred loss method used for determining credit losses on financial assets, including trade receivables, with an expected credit loss method. ASU No. 2016-13 is effective for the Company as of January 1, 2020 and early adoption is permitted. The Company is evaluating the impact of the new guidance on the consolidated financial statements and when it may be adopted.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which supersedes the current leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize assets and lease liabilities for the rights and obligations created by leased assets previously classified as operating leases. ASU No. 2016-02 is effective for the Company as of January 1, 2019 and early adoption is permitted. The Company expects to adopt this new guidance as of January 1, 2019 and is evaluating the impact of the new guidance on the consolidated financial statements.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which modifies how entities measure equity investments (except those accounted for under the equity method of accounting) and present changes in the fair value of financial liabilities; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; changes presentation and disclosure requirements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The guidance is effective for the Company as of January 1, 2018 and, with the exception of certain provisions, early adoption is not permitted. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The new accounting standard defines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company will be required to adopt the new standard, including subsequently issued clarifying guidance, as of January 1, 2018 using either: (i) full retrospective application to each prior reporting period presented; or (ii) modified retrospective application with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional required disclosures. The Company plans to adopt the new accounting model as of January 1, 2018 using the modified retrospective method.

The Company has completed an impact assessment and determined that adoption of the standard will likely result in an acceleration in the timing of when revenues are recognized for contracts containing multiple performance obligations. These contract revenues are currently accounted for using the multi-element guidance and are primarily for certain metro cell, distributed antenna system (DAS) and small cell solutions within the CommScope Mobility Solutions (CMS) segment. These multi-element revenue contracts represented less than 2% of total net sales for the three and six months ended June 30, 2017. Due to the short-term nature of most of the contracts, the ultimate impact to the Company's consolidated financial statements at adoption will be based on customer-specific contract terms in effect at that time and could be significant.

The Company is in the process of implementing the necessary changes to its accounting policies, processes, internal controls and information systems that will be required to meet the new standard's reporting and disclosure requirements.

## 2. ACQUISITIONS

On August 28, 2015, the Company acquired TE Connectivity's BNS business for approximately \$3.0 billion in an all-cash transaction. During the six months ended June 30, 2016, the Company received \$6.3 million in net settlements for certain adjustments related to the BNS acquisition. Also during the three and six months ended June 30, 2016, the Company recorded measurement period adjustments primarily related to the finalization of the valuation of inventory, intangible assets, plant and equipment, pension liabilities and deferred taxes. The impact of these measurement period adjustments was not material to the Company's results.

## 3. GOODWILL

The following table presents goodwill by reportable segment (in millions):

	CCS	CMS	Total
Goodwill, gross at December 31, 2016	\$2,077.5	\$901.8	\$2,979.3
Foreign exchange	40.6	1.8	42.4
Goodwill, gross at June 30, 2017	2,118.1	903.6	3,021.7
Accumulated impairment charges at December 31, 2016			
and June 30, 2017	(51.5 )	(159.5)	(211.0 )
Goodwill, net at June 30, 2017	\$2,066.6	\$744.1	\$2,810.7

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

## 4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

## Inventories

	June 30,	December 31,
	2017	2016
Raw materials	\$ 141,954	\$ 126,027
Work in process	118,000	135,848
Finished goods	269,650	211,392
	\$ 529,604	\$ 473,267

## Other Accrued Liabilities

	June 30,	December 31,
	2017	2016
Compensation and employee benefit liabilities	\$ 99,687	\$ 169,923
Deferred revenue	20,244	25,859
Product warranty accrual	20,283	21,631
Accrued interest	18,712	8,586
Restructuring reserve	29,756	30,438
Income taxes payable	18,544	49,984
Value-added taxes payable	12,960	14,885
Accrued professional fees	9,230	10,621
Other	78,929	97,470
	\$ 308,345	\$ 429,397

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## CommScope Holding Company, Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

## Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive income (AOCI), net of tax, and accumulated other comprehensive loss (AOCL), net of tax:

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
<b>Foreign currency translation</b>				
Balance at beginning of period	\$(213,797)	\$(114,336)	\$(254,148)	\$(160,620)
Other comprehensive income (loss)	86,749	(46,897 )	126,833	(613 )
Amounts reclassified from AOCL	—	306	267	306
Balance at end of period	\$(127,048)	\$(160,927)	\$(127,048)	\$(160,927)
<b>Defined benefit plan activity</b>				
Balance at beginning of period	\$(33,842 )	\$(18,298 )	\$(33,473 )	\$(17,567 )
Other comprehensive loss	—	(1,730 )	—	(1,730 )
Amounts reclassified from AOCL	(360 )	(674 )	(729 )	(1,405 )
Balance at end of period	\$(34,202 )	\$(20,702 )	\$(34,202 )	\$(20,702 )
<b>Net investment hedge</b>				
Balance at beginning of period	\$(355 )	\$—	\$—	\$—
Other comprehensive loss	(2,996 )	—	(3,351 )	—
Balance at end of period	\$(3,351 )	\$—	\$(3,351 )	\$—
<b>Available-for-sale securities</b>				
Balance at beginning of period	\$3,817	\$5,786	\$2,508	\$6,509
Other comprehensive income (loss)	1,616	(901 )	3,314	(1,395 )
Amounts reclassified from AOCI	(3,748 )	(510 )	(4,137 )	(739 )
Balance at end of period	\$1,685	\$4,375	\$1,685	\$4,375
Net AOCL at end of period	\$(162,916)	\$(177,254)	\$(162,916)	\$(177,254)

Amounts reclassified from net AOCL related to foreign currency translation and available-for-sale securities are recorded in other income (expense), net in the Condensed Consolidated Statements of Operations and Comprehensive Income. Defined benefit plan amounts reclassified from net AOCL are included in the computation of net periodic benefit cost (income) and are primarily recorded in cost of sales and selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income.

## Cash Flow Information

Six Months Ended

June 30,



	2017	2016
Cash paid during the period for:		
Income taxes, net of refunds	\$77,318	\$38,308
Interest	\$105,376	\$138,462

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

## 5. FINANCING

	June 30, 2017	December 31, 2016
5.00% senior notes due March 2027	\$ 750,000	\$ —
6.00% senior notes due June 2025	1,500,000	1,500,000
5.50% senior notes due June 2024	650,000	650,000
5.00% senior notes due June 2021	650,000	650,000
4.375% senior secured notes due June 2020	—	500,000
Senior secured term loan due December 2022	1,096,250	1,234,375
Senior secured term loan due January 2018	—	111,875
Senior secured revolving credit facility expires May 2020	—	—
Total principal amount of debt	\$ 4,646,250	\$ 4,646,250
Less: Original issue discount, net of amortization	(4,555 )	(5,857 )
Less: Debt issuance costs, net of amortization	(71,728 )	(78,383 )
Less: Current portion	—	(12,500 )
Total long-term debt	\$ 4,569,967	\$ 4,549,510

See Note 6 in the Notes to Consolidated Financial Statements in the 2016 Annual Report for additional information on the terms and conditions of the 6.00% senior notes (the 2025 Notes), the 5.50% senior notes (the 2024 Notes), the 5.00% senior notes (the 2021 Notes), the 4.375% senior secured notes (the 2020 Notes) and the senior secured term loans and credit facility.

## 5.00% Senior Notes Due 2027

In March 2017, CommScope Technologies LLC (CommScope Technologies), a wholly owned subsidiary of the Company, issued \$750.0 million of 5.00% Senior Notes due March 15, 2027 (the 2027 Notes). Interest is payable on the 2027 Notes semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2017. The Company used the proceeds of the issuance of the 2027 Notes, together with cash on hand, to (i) redeem all of the 2020 Notes, (ii) repay a portion of the outstanding borrowings under its senior secured term loans, including all \$111.9 million of outstanding principal on the senior secured term loan due 2018 and \$138.1 million of outstanding principal on the senior secured term loan due 2022 (the 2022 Term Loan), and (iii) pay related fees and expenses. The redemption of the 2020 Notes resulted in a \$14.8 million charge which is reflected in other income (expense), net. In connection with the redemption of the 2020 Notes and prepayments of the senior secured term loans, \$9.6 million of debt issuance costs and original issue discount were written off and included in interest expense.

CommScope, Inc., a wholly owned subsidiary of the Company, and each of CommScope, Inc.'s existing and future domestic subsidiaries (other than CommScope Technologies) that guarantee the senior secured credit facilities also guarantees the 2027 Notes on a senior unsecured basis, subject to certain exceptions. The 2027 Notes rank senior in right of payment with all of CommScope Technologies' and the guarantors' future subordinated indebtedness and

equally in right of payment with all of CommScope Technologies' and the guarantors' existing and future senior indebtedness, including the senior secured credit facilities, the 2025 Notes, the 2024 Notes and the 2021 Notes. The 2027 Notes and guarantees are effectively junior to all of CommScope Technologies' and the guarantors' existing and future secured indebtedness, including the senior secured credit facilities, to the extent of the value of the assets securing such secured indebtedness. In addition, the 2027 Notes are structurally subordinated to all existing and future liabilities (including trade payables) of CommScope, Inc.'s subsidiaries that do not guarantee the 2027 Notes, including indebtedness incurred by certain of CommScope, Inc.'s non-U.S. subsidiaries under the revolving credit facility.

The 2027 Notes may be redeemed prior to maturity under certain circumstances. Upon certain change of control events, the 2027 Notes may be redeemed at the option of the holders at 101% of their principal amount, plus accrued and unpaid interest. The 2027 Notes may be redeemed on or after March 15, 2022 at the redemption prices specified in the indenture governing the 2027 Notes. Prior to March 15, 2022, the 2027 Notes may be redeemed at a redemption price equal to 100% of the aggregate principal amount of the 2027 Notes to be redeemed, plus a make-whole premium (as specified in the indenture governing the 2027 Notes), plus accrued and unpaid interest. At any time prior to March 15, 2020, CommScope Technologies may also redeem up to 40% of the aggregate principal amount of the 2027 Notes at a redemption price of 105%, plus accrued and unpaid interest, using the proceeds of certain equity offerings.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

In connection with issuing the 2027 Notes, the Company paid \$7.2 million of debt issuance costs during the six months ended June 30, 2017, which was recorded as a reduction of the carrying amount of the debt and is being amortized over the term of the notes.

#### Senior Secured Credit Facilities

During May 2017, the Company amended the 2022 Term Loan to reduce the interest rate margin. The interest rate is, at the Company's option, either (1) the base rate (as described in the credit agreement, as amended) plus a margin of 1.00% or (2) one-, two-, three- or six-month LIBOR or, if available from all lenders, twelve-month LIBOR (selected at the Company's option) plus a margin of 2.00%. Before the amendment, the margin on the interest rate with respect to base rate loans was 1.50% and with respect to LIBOR loans was 2.50%. The amendment also reduced the 1.75% base rate floor to 1.00% and eliminated the 0.75% LIBOR floor. The amendment resulted in the repayment of \$30.4 million to certain lenders under the senior secured credit facilities and the receipt of \$30.4 million in proceeds from new lenders and existing lenders who increased their positions. In conjunction with the amendment, the Company recorded \$1.1 million of debt modification costs in other income (expense), net.

No portion of the senior secured term loan was reflected as a current portion of long-term debt as of June 30, 2017 related to the potentially required excess cash flow payment because the amount that may be payable in 2018, if any, cannot currently be reliably estimated. There was no excess cash flow payment required in 2017 related to 2016.

During the six months ended June 30, 2017, the Company did not borrow under its revolving credit facility. As of June 30, 2017, the Company had availability of approximately \$474.2 million under the asset-based revolving credit facility, after giving effect to borrowing base limitations and outstanding letters of credit.

#### Other Matters

The following table summarizes scheduled maturities of long-term debt as of June 30, 2017 (in millions):

	Remainder					
	of 2017					
	2018					
	2019					
	2020					
	2021					
	Thereafter					
Scheduled maturities of long-term debt	\$ —	\$ —	\$ —	\$ —	\$650.0	\$ 3,996.3

The Company's non-guarantor subsidiaries held \$2,581 million, or 36%, of total assets and \$583 million, or 10%, of total liabilities as of June 30, 2017 and accounted for \$471 million, or 40%, and \$911 million, or 39%, of net sales for the three and six months ended June 30, 2017, respectively. As of December 31, 2016, the non-guarantor subsidiaries held \$2,211 million, or 31%, of total assets and \$615 million, or 11%, of total liabilities. For the three and six months ended June 30, 2016, the non-guarantor subsidiaries accounted for approximately \$560 million, or 43%, and \$1,060 million, or 43%, of net sales, respectively. All amounts presented exclude intercompany balances.

The weighted average effective interest rate on outstanding borrowings, including the amortization of debt issuance costs and original issue discount, was 5.36% and 5.24% at June 30, 2017 and December 31, 2016, respectively.

## 6. DERIVATIVES AND HEDGING ACTIVITIES

Derivatives Not Designated As Hedging Instruments

The Company uses forward contracts to hedge a portion of its balance sheet foreign exchange re-measurement risk and to hedge certain planned foreign currency expenditures. As of June 30, 2017, the Company had foreign exchange contracts outstanding with maturities of up to twelve months and aggregate notional values of \$359 million (based on exchange rates as of June 30, 2017). Unrealized gains and losses resulting from these contracts are recognized in other income (expense), net and partially offset corresponding foreign exchange gains and losses on the balances and expenditures being hedged. These instruments are not held for speculative or trading purposes and are not designated as hedges for hedge accounting and are marked to market each period through earnings.

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## CommScope Holding Company, Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table presents the balance sheet location and fair value of the Company's derivatives not designated as hedging instruments:

	Balance Sheet Location	Fair Value of Asset (Liability) June 30, December 31,	
		2017	2016
Foreign currency contracts	Prepaid expenses and other current assets	\$8,452	\$ 289
Foreign currency contracts	Other accrued liabilities	(513 )	(8,349 )
Total derivatives not designated as hedging instruments		\$7,939	\$ (8,060 )

The pretax impact of these foreign currency forward contracts, both matured and outstanding, on the Condensed Consolidated Statements of Operations and Comprehensive Income is as follows:

		Gain (Loss)
Foreign Currency Forward Contracts	Location of Gain (Loss)	Recognized
Three Months Ended June 30, 2017	Other income (expense), net	\$ 12,553
Three Months Ended June 30, 2016	Other income (expense), net	\$ (7,953 )
Six Months Ended June 30, 2017	Other income (expense), net	\$ 14,409
Six Months Ended June 30, 2016	Other income (expense), net	\$ (6,789 )

## Derivative Instruments Designated As Net Investment Hedge

During 2017, the Company entered into foreign exchange forward contracts that are designated as net investment hedges and are intended to mitigate a portion of the foreign currency risk on the Euro net investment in a foreign subsidiary. As of June 30, 2017, the Company held forward contracts with outstanding maturities of six months and aggregate notional values of \$75.0 million.

Hedge effectiveness is assessed each quarter based on the net investment in the foreign subsidiary designated as the hedged item and the overall changes in the fair value of the forward contracts. For hedges that meet the effectiveness requirements, changes in fair value are recorded as a component of other comprehensive income (loss), net of tax. Any change in fair value that is the result of ineffectiveness is recognized immediately in earnings. As of June 30, 2017, there was no ineffectiveness on the instruments designated as net investment hedges.

The following table presents the balance sheet location and fair value of the derivatives designated as net investment hedges:

Balance Sheet Location	Fair Value of Asset (Liability) June 30, December 31,
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		2017	2016
Foreign currency contracts	Prepaid expenses and other current assets	\$—	\$ —
Foreign currency contracts	Other accrued liabilities	(5,405)	—
Total derivatives designated as net			
investment hedging instruments			
		\$(5,405)	\$ —

The after tax impact of the effective portion of the forward contracts designated as net investment hedging instruments on the Condensed Consolidated Statements of Operations and Comprehensive Income is as follows:

Foreign Currency Forward Contracts	Location of Loss	Effective Portion of Loss Recognized
Three Months Ended June 30, 2017	Other comprehensive income (loss), net of tax	\$ (2,996 )
Three Months Ended June 30, 2016	Other comprehensive income (loss), net of tax	—
Six Months Ended June 30, 2017	Other comprehensive income (loss), net of tax	\$ (3,351 )
Six Months Ended June 30, 2016	Other comprehensive income (loss), net of tax	—

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

## 7. FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, available-for-sale securities, debt instruments and foreign currency contracts. For cash and cash equivalents, trade receivables and trade payables, the carrying amounts of these financial instruments as of June 30, 2017 and December 31, 2016 were considered representative of their fair values due to their short terms to maturity. The fair value of the Company's available-for-sale securities was based on quoted market prices. The fair values of the Company's debt instruments and foreign currency contracts were based on indicative quotes.

Fair value measurements using quoted prices in active markets for identical assets and liabilities fall within Level 1 of the fair value hierarchy, measurements using significant other observable inputs fall within Level 2, and measurements using significant unobservable inputs fall within Level 3.

The carrying amounts, estimated fair values and valuation input levels of the Company's available-for-sale securities, foreign currency contracts and debt instruments as of June 30, 2017 and December 31, 2016, are as follows:

	June 30, 2017		December 31, 2016		Valuation
	Carrying		Carrying		
	Amount	Fair Value	Amount	Fair Value	Inputs
<b>Assets:</b>					
Available-for-sale securities	\$3,258	\$3,258	\$5,212	\$5,212	Level 1
Foreign currency contracts	8,452	8,452	289	289	Level 2
<b>Liabilities:</b>					
5.00% senior notes due 2027	750,000	748,125	—	—	Level 2
6.00% senior notes due 2025	1,500,000	1,610,550	1,500,000	1,585,350	Level 2
5.50% senior notes due 2024	650,000	677,430	650,000	673,530	Level 2
5.00% senior notes due 2021	650,000	667,030	650,000	669,500	Level 2
4.375% senior secured notes due 2020	—	—	500,000	513,100	Level 2
Senior secured term loan due 2022, at par	1,096,250	1,105,815	1,234,375	1,245,145	Level 2
Senior secured term loan due 2018, at par	—	—	111,875	112,364	Level 2
Foreign currency contracts	5,918	5,918	8,349	8,349	Level 2

These fair value estimates are based on pertinent information available to management as of the valuation date. Although management is not aware of any factors that would significantly affect these fair value estimates, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and current estimates of fair value may differ significantly from the amounts presented.





CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

**8. SEGMENTS AND GEOGRAPHIC INFORMATION**

The CommScope Connectivity Solutions (CCS) segment provides connectivity and network intelligence for indoor and outdoor network applications. Indoor network solutions are found in commercial buildings and in the network core, which includes data centers, central offices and cable television headends. These solutions include optical fiber and twisted pair structured cabling solutions, intelligent infrastructure software, network rack and cabinet enclosures, patch cords and panels, complete cabling systems and cable assemblies, central office connectivity and equipment and headend solutions for the network core. Outdoor network solutions are found in both local-area and wide-area networks and “last-mile” fiber-to-the-home installations. These solutions support the multichannel video, voice and high-speed data services provided by telecommunications operators and multi-system operators. The Company’s fiber optic connectivity solutions are primarily comprised of hardened connector systems, fiber distribution hubs and management systems, couplers and splitters, “plug and play” multiport service terminals, hardened optical terminating enclosures, high density cable assemblies, splices and splice closures.

The CommScope Mobility Solutions (CMS) segment provides merchant radio frequency (RF) wireless network connectivity solutions as well as metro cell, DAS and small cell solutions to enable carriers’ 2G, 3G and 4G networks and to begin to prepare for their 5G needs. These solutions enable wireless operators to increase spectral efficiency and enhance cellular coverage and capacity in challenging network conditions such as commercial buildings, urban areas, stadiums and transportation systems. The CMS segment focuses on all aspects of the radio access network (RAN) from the macro through the metro, to the indoor layer. Macro cell solutions can be found at wireless tower sites and on rooftops and include base station antennas, microwave antennas, hybrid fiber-feeder and power cables, coaxial cables, connectors and filters. Metro cell solutions can be found on street poles and on other urban, outdoor structures and include RF delivery and connectivity solutions, equipment housing and concealment. These fully integrated outdoor systems comprise specialized antennas, filters/combiners, backhaul solutions, intra-system cabling and power distribution, all minimized to fit an urban environment.

The following table provides summary financial information by reportable segment (in millions):

	June 30, 2017	December 31, 2016
<b>Identifiable segment-related assets:</b>		
CCS	\$4,562.5	\$ 4,507.5
CMS	2,081.5	2,159.4
Total identifiable segment-related assets	6,644.0	6,666.9
<b>Reconciliation to total assets:</b>		
Cash and cash equivalents	484.5	428.2
Deferred income tax assets	47.5	46.9
Total assets	\$7,176.0	\$ 7,142.0



CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table provides net sales, adjusted operating income, depreciation expense and additions to property, plant and equipment by reportable segment (in millions):

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net sales:				