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CommScope Holding Company, Inc.
Form 10-Q
November 03, 2016

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 September 30, 2016

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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 October 17, 2016 there were 192,929,959 shares of Common Stock outstanding.

CommScope Holding Company, Inc.

Form 10-Q

September 30, 2016

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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 (Loss)
(Unaudited -- In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$1,293,948	\$972,597	\$3,744,715	\$2,665,287
Operating costs and expenses:				
Cost of sales	751,097	633,706	2,201,014	1,718,497
Selling, general and administrative	220,835	203,820	664,365	460,288
Research and development	48,430	31,100	152,554	86,818
Amortization of purchased intangible assets	74,639	54,287	224,270	143,697
Restructuring costs, net	10,826	6,868	24,503	10,633
Asset impairments	7,375	85,334	22,668	85,334
Total operating costs and expenses	1,113,202	1,015,115	3,289,374	2,505,267
Operating income (loss)	180,746	(42,518)	455,341	160,020
Other expense, net	(7,546)	(8,269)	(21,898)	(5,556)
Interest expense	(68,349)	(73,387)	(215,024)	(158,752)
Interest income	1,023	1,276	4,750	3,336
Income (loss) before income taxes	105,874	(122,898)	223,169	(952)
Income tax (expense) benefit	(12,043)	42,102	(54,797)	5,224
Net income (loss)	\$93,831	\$(80,796)	\$168,372	\$4,272
Earnings (loss) per share:				
Basic	\$0.49	\$(0.42)	\$0.88	\$0.02
Diluted	\$0.48	\$(0.42)	\$0.86	\$0.02
Weighted average shares outstanding:				
Basic	192,719	190,269	192,275	189,483
Diluted	196,598	190,269	196,141	193,930
Comprehensive income (loss):				
Net income (loss)	\$93,831	\$(80,796)	\$168,372	\$4,272
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	8,610	(22,835)	8,303	(40,685)
Pension and other postretirement benefit activity	(376)	(1,566)	(3,511)	(4,739)
Available-for-sale securities	(257)	(1,737)	(2,391)	(5,873)
Total other comprehensive income (loss), net of tax	7,977	(26,138)	2,401	(51,297)
Total comprehensive income (loss)	\$101,808	\$(106,934)	\$170,773	\$(47,025)

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)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 517,275	\$ 562,884
Accounts receivable, less allowance for doubtful accounts of \$19,388 and \$19,392, respectively	966,839	833,041
Inventories, net	475,679	441,815
Prepaid expenses and other current assets	130,690	166,900
Total current assets	2,090,483	2,004,640
Property, plant and equipment, net of accumulated depreciation of \$288,137 and \$243,806, respectively	499,842	528,706
Goodwill	2,803,227	2,690,636
Other intangible assets, net	1,905,255	2,147,483
Other noncurrent assets	112,834	131,166
Total assets	\$ 7,411,641	\$ 7,502,631
Liabilities and Stockholders' Equity		
Accounts payable	\$ 417,546	\$ 300,829
Other accrued liabilities	497,777	371,743
Current portion of long-term debt	12,500	12,520
Total current liabilities	927,823	685,092
Long-term debt	4,701,486	5,231,131
Deferred income taxes	202,429	202,487
Pension and other postretirement benefit liabilities	31,201	37,102
Other noncurrent liabilities	115,471	124,099
Total liabilities	5,978,410	6,279,911
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: 192,868,939 and 191,368,727, respectively	1,940	1,923
Additional paid-in capital	2,258,869	2,216,202
Retained earnings (accumulated deficit)	(644,022)	(812,394)
Accumulated other comprehensive loss	(169,277)	(171,678)
Treasury stock, at cost: 1,101,820 shares and 986,222 shares, respectively	(14,279)	(11,333)
Total stockholders' equity	1,433,231	1,222,720
Total liabilities and stockholders' equity	\$ 7,411,641	\$ 7,502,631

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)

	Nine Months Ended September 30,	
	2016	2015
Operating Activities:		
Net income	\$ 168,372	\$ 4,272
Adjustments to reconcile net income to net cash generated by		
operating activities:		
Depreciation and amortization	301,450	199,485
Equity-based compensation	26,621	21,055
Deferred income taxes	(94,239)	(92,538)
Asset impairments	22,668	85,334
Excess tax benefits from equity-based compensation	(8,083)	(19,194)
Changes in assets and liabilities:		
Accounts receivable	(96,337)	(116,131)
Inventories	(23,480)	67,518
Prepaid expenses and other assets	12,540	(43,286)
Accounts payable and other liabilities	218,590	74,524
Other	(2,850)	4,697
Net cash generated by operating activities	525,252	185,736
Investing Activities:		
Additions to property, plant and equipment	(49,660)	(39,422)
Proceeds from sale of property, plant and equipment	3,935	219
Cash paid for acquisitions including purchase price adjustments, net of		
cash acquired	2,714	(2,957,476)
Other	3,487	3,268
Net cash used in investing activities	(39,524)	(2,993,411)
Financing Activities:		
Long-term debt repaid	(546,025)	(502,566)
Long-term debt proceeds	—	3,246,875
Long-term debt financing costs	—	(73,890)
Proceeds from the issuance of common shares under equity-based		
compensation plans	8,637	21,273
Excess tax benefits from equity-based compensation	8,083	19,194
Tax withholding payments for vested equity-based compensation		
awards	(2,946)	—
Net cash generated by (used in) financing activities	(532,251)	2,710,886
Effect of exchange rate changes on cash and cash equivalents	914	(14,570)
Change in cash and cash equivalents	(45,609)	(111,359)
Cash and cash equivalents, beginning of period	562,884	729,321

Cash and cash equivalents, end of period	\$517,275	\$617,962
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See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited - In thousands, except share amounts)

	Nine Months Ended September 30,	
	2016	2015
Number of common shares outstanding:		
Balance at beginning of period	191,368,727	187,831,389
Issuance of shares under equity-based compensation plans	1,615,810	2,759,107
Shares surrendered under equity-based compensation plans	(115,598)	—
Balance at end of period	192,868,939	190,590,496
Common stock:		
Balance at beginning of period	\$ 1,923	\$ 1,888
Issuance of shares under equity-based compensation plans	17	28
Balance at end of period	\$ 1,940	\$ 1,916
Additional paid-in capital:		
Balance at beginning of period	\$ 2,216,202	\$ 2,141,433
Issuance of shares under equity-based compensation plans	8,620	21,246
Equity-based compensation	26,530	17,500
Tax benefit from shares issued under equity-based compensation plans	7,517	19,107
Balance at end of period	\$ 2,258,869	\$ 2,199,286
Retained earnings (accumulated deficit):		
Balance at beginning of period	\$ (812,394)	\$ (741,519)
Net income	168,372	4,272
Balance at end of period	\$ (644,022)	\$ (737,247)
Accumulated other comprehensive loss:		
Balance at beginning of period	\$ (171,678)	\$ (83,548)
Other comprehensive income (loss), net of tax	2,401	(51,297)
Balance at end of period	\$ (169,277)	\$ (134,845)
Treasury stock, at cost:		
Balance at beginning of period	\$ (11,333)	\$ (10,635)
Net shares surrendered under equity-based compensation plans	(2,946)	—
Balance at end of period	\$ (14,279)	\$ (10,635)
Total stockholders' equity	\$ 1,433,231	\$ 1,318,475

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 essential infrastructure solutions for 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.

On August 28, 2015, the Company acquired TE Connectivity's Broadband Network Solutions (BNS) business in an all-cash transaction valued at approximately \$3.0 billion. See Note 2 for additional discussion of the BNS acquisition.

As of January 1, 2016, the Company reorganized its internal management and reporting structure as part of the integration of the BNS acquisition. The reorganization changed the information regularly reviewed by the Company's chief operating decision maker for purposes of allocating resources and assessing performance. As a result, the Company is reporting financial performance for 2016 based on its new operating segments: CommScope Connectivity Solutions (CCS) and CommScope Mobility Solutions (CMS). Both CCS and CMS represent non-aggregated reportable operating segments. Prior to this change, the Company operated and reported the following operating segments: Wireless, Enterprise, Broadband and BNS. All prior period amounts in these interim condensed consolidated financial statements have been recast to reflect these operating segment changes.

Basis of Presentation

The Condensed Consolidated Balance Sheet as of September 30, 2016, the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015, and the Condensed Consolidated Statements of Cash Flows and Stockholders' Equity for the nine months ended September 30, 2016 and 2015 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 BNS business results of operations that are reported in the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2016 are for the fiscal periods June 25, 2016 through September 30, 2016 and December 26, 2015 through September 30, 2016, respectively. The BNS business results for the three months ended September 30, 2016 include fourteen weeks compared to thirteen weeks in each of the first two quarters of 2016. The BNS business results of operations that are reported in the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2015 are from August 28, 2015, the date of acquisition, through their fiscal period ended September 25, 2015.

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, 2015 (the 2015 Annual Report). There were no changes in the Company's significant accounting policies during the three or nine months ended September 30, 2016. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements.

Concentrations of Risk and Related Party Transactions

Net sales to Anixter International Inc. and its affiliates (Anixter) accounted for 11% of the Company's total net sales during the three and nine months ended September 30, 2016. Net sales to Anixter accounted for 13% of the Company's total net sales during the three and nine months ended September 30, 2015. Sales to Anixter primarily originate within the 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 nine months ended September 30, 2016 or 2015.

Accounts receivable from Anixter and Verizon Communications Inc. (Verizon) each represented approximately 11% of accounts receivable as of September 30, 2016. Other than Anixter and Verizon, no direct customer accounted for more than 10% of the Company's accounts receivable as of September 30, 2016.

As of September 30, 2016, funds affiliated with The Carlyle Group (Carlyle) owned 10.2% of the outstanding shares of CommScope.

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 Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Product warranty accrual, beginning of period	\$18,356	\$15,194	\$17,964	\$17,054
Accrual assumed in BNS acquisition	—	1,900	—	1,900
Provision for warranty claims	3,435	2,054	7,954	5,968
Warranty claims paid	(14)	(3,127)	(4,141)	(8,901)
Product warranty accrual, end of period	\$21,777	\$16,021	\$21,777	\$16,021

Commitments and Contingencies

The Company is either a plaintiff or a defendant in pending legal matters in the normal course of business, including various matters assumed as part of the BNS acquisition. 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 a reporting unit with goodwill may not be recoverable. During the first quarter of 2016, the Company assessed goodwill for impairment due to the change in reportable segments, which also resulted in changes to several reporting units. As a result, the Company performed impairment testing for goodwill under the

reporting unit structure immediately before the change and determined that no impairment existed. The Company reallocated goodwill to the new reporting units under the new reporting structure and performed impairment testing for goodwill under the new segment reporting structure immediately after the change and determined that a \$15.3 million goodwill impairment existed within one of the CCS reporting units at January 1, 2016. The impairment test was performed using a discounted cash flow (DCF) valuation model. Significant assumptions in the DCF model are annual revenue growth rates, annual operating income margins and the discount rate used to determine the present value of the cash flow projections. The discount rate was based on the estimated weighted average cost of capital as of the test date for market participants in our reporting units' industries.

Results for the three and nine months ended September 30, 2015, included a goodwill impairment charge of \$74.4 million in the CMS 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. During the three months ended September 30, 2016, as a result of revisions to the business plan for a particular product line, the Company determined that certain intangible assets in the CCS segment were no longer recoverable and a \$7.4 million impairment charge was recorded.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Results for the three and nine months ended September 30, 2015, included a \$10.9 million impairment charge in the CCS segment for a note receivable related to a previous divestiture. Other than the impairments described above, there were no other material asset impairments identified during the three or nine months ended September 30, 2016 or 2015.

Income Taxes

The effective income tax rate of 11.4% and 24.6% for the three and nine months ended September 30, 2016, respectively, was lower than the statutory rate of 35% primarily due to a reduction in tax expense related to uncertain tax positions and the release of valuation allowances related to certain foreign deferred tax assets. 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 nine months ended September 30, 2016 was the effect of the provision for state income taxes as well as the goodwill impairment for which only partial tax benefits were recorded.

The effective income tax rate for the three and nine months ended September 30, 2015 reflected the impact of impairment charges for which minimal tax benefits were recorded. The effective income tax rate was favorably affected by the impact of earnings in foreign jurisdictions that are generally taxed at rates lower than the U.S. statutory rate, benefits recognized from adjustments related to prior years' tax returns and a reduction in tax expense related to uncertain tax positions. These benefits were partially offset by losses in certain jurisdictions where the Company did not recognize tax benefits due to the likelihood of them not being realizable.

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, performance share units and restricted stock 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 (1.4 million shares and 1.5 million shares for the three and nine months ended September 30, 2016, respectively, and 5.3 million shares and 1.5 million shares for the three and nine months ended September 30, 2015, respectively). Antidilutive securities for the three months ended September 30, 2015 included 4.4 million shares of equity-based awards which would have been considered dilutive if the Company had not been in a net loss position.

The following table presents the basis for the earnings per share computations:

Three Months Ended September 30,	Nine Months Ended September 30,
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	2016	2015	2016	2015
Numerator:				
Net income (loss) for basic and diluted earnings per share	\$93,831	\$(80,796)	\$168,372	\$4,272
Denominator:				
Weighted average common shares outstanding - basic	192,719	190,269	192,275	189,483
Dilutive effect of equity-based awards	3,879	—	3,866	4,447
Weighted average common shares outstanding - diluted	196,598	190,269	196,141	193,930
Earnings (loss) per share:				
Basic	\$0.49	\$(0.42)	\$0.88	\$0.02
Diluted	\$0.48	\$(0.42)	\$0.86	\$0.02

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, Cash Flow Classification of Certain Cash Receipts and Cash Payments. The standard update amended or clarified guidance on classification of certain transactions in the statement of cash flows, including classification of debt prepayments, debt extinguishment

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

costs and contingent consideration payments after a business combination. ASU 2016-15 is effective for the Company as of January 1, 2018 and early adoption is permitted. The Company is evaluating the impact of this new guidance on the Company's consolidated statement of cash flows 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 this new guidance on the Company's consolidated financial statements and when it may be adopted.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which 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. ASU No. 2016-09 is effective for the Company as of January 1, 2017 and early adoption is permitted. The Company plans to adopt this ASU as of January 1, 2017 and does not expect that its application will have a significant impact on income before income taxes; however, it may impact the Company's net income because excess tax benefits or deficiencies, which are currently reflected in additional paid in capital, must be reflected in income tax expense under ASU No. 2016-09. The significance of the impact will depend on the intrinsic value at the time of vesting or exercise of equity-based compensation awards. The impact to the Consolidated Statements of Cash Flows will be to present excess tax benefits or deficiencies as an operating activity instead of a financing activity. The Company also expects to make an accounting policy election to account for forfeitures as they occur.

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 is evaluating the impact of this new guidance on the Company's consolidated financial statements and when it may be adopted.

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 is evaluating the impact of this new guidance on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The guidance requires that inventory be measured at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance simplifies the prior guidance by eliminating the options of measuring inventory at replacement cost or net realizable value less an approximate normal profit margin. This guidance is effective for the Company as of January 1,

2017, with early adoption permitted. The Company plans to adopt the new guidance in the fourth quarter of 2016 and does not expect a material impact on the Company's 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 in 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. In August 2015, the FASB deferred the effective date of ASU No. 2014-09 by one year. During 2016, the FASB has issued additional accounting standard updates clarifying the guidance in ASU No. 2014-09. The Company will be required to adopt the new standard, including subsequent 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 and is continuing to assess the impact on the Company's consolidated financial statements.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

2. ACQUISITIONS

Broadband Network Solutions

On August 28, 2015, the Company acquired TE Connectivity's BNS business in an all-cash transaction. The Company has made net payments of \$3,017.4 million (\$2,953.7 million net of cash acquired). As of September 30, 2016, the Company had a net payable of \$1.0 million due to TE Connectivity for remaining purchase price adjustments. Net sales of \$523.7 million and \$1,367.8 million for the three and nine months ended September 30, 2016, respectively, and \$141.1 million for the three and nine months ended September 30, 2015 related to the acquired business are reflected in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and are primarily reported in the CCS segment.

The purchase price for BNS was assigned to assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition and the excess was allocated to goodwill. The following table summarizes the preliminary allocation of the purchase price at the date of acquisition and the subsequent measurement period adjustments to arrive at the final allocation of the purchase price at the acquisition date (in millions):

	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (as adjusted)
Cash and cash equivalents	\$ 63.7	\$ —	\$ 63.7
Accounts receivable	252.9	(1.9)	251.0
Inventories	266.4	(12.3)	254.1
Other current assets	40.0	1.6	41.6
Property, plant and equipment	247.6	(1.6)	246.0
Goodwill	1,242.8	182.9	1,425.7
Identifiable intangible assets	1,150.0	(63.5)	1,086.5
Other noncurrent assets	22.3	3.0	25.3
Current liabilities	(224.2)	(4.8)	(229.0)
Noncurrent pension liabilities	(30.5)	18.9	(11.6)
Other noncurrent liabilities	(27.1)	(107.8)	(134.9)
Net acquisition cost	\$ 3,003.9	\$ 14.5	\$ 3,018.4

The Company has recorded measurement period adjustments since the acquisition date 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 to the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) were not material to any current year period. If these adjustments had been applied at the original acquisition date, the impact to current year and prior year periods also would have been immaterial.

The goodwill arising from the purchase price allocation of the BNS acquisition is believed to result from the company's reputation in the marketplace and assembled workforce. A significant portion of the goodwill is expected to be deductible for income tax purposes.

Various valuation techniques were used to estimate the fair value of the assets acquired and the liabilities assumed which use significant unobservable inputs, or Level 3 inputs as defined by the fair value hierarchy. Using these valuation approaches requires the Company to make significant estimates and assumptions.

There were certain foreign assets acquired and liabilities assumed in the BNS acquisition for which title did not transfer at the acquisition date although the consideration was paid as part of the overall purchase price discussed above. As of September 30, 2016, these transfers have been completed.

The BNS amounts included in the following pro forma information are based on their historical results prepared on a carve-out basis of accounting and, therefore, may not be indicative of the actual results when operated as part of CommScope. The pro forma adjustments represent management's best estimates based on information available at the time the pro forma information was prepared and may differ from the adjustments that may actually have been required. Accordingly, the pro forma financial information should not be relied upon as being indicative of the results that would have been realized had the acquisition occurred as of the date indicated or that may be achieved in the future.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table presents unaudited pro forma condensed consolidated results of operations for CommScope for the three and nine months ended September 30, 2015 as though the BNS acquisition had been completed as of January 1, 2014 (in millions, except per share amounts):

	Three Months	Nine Months
	Ended September 30, 2015	Ended September 30, 2015
Net sales	\$ 1,247.3	\$ 3,835.8
Net income (loss)	(48.1)	57.2
Net income (loss) per diluted share	(0.25)	0.29

These pro forma results reflect adjustments for net interest expense for the debt related to the acquisition; depreciation expense for property, plant and equipment that has been adjusted to its estimated fair value; amortization for intangible assets with finite lives identified separate from goodwill; equity-based compensation for equity awards issued to BNS employees; and the related income tax impacts of these adjustments.

These pro forma results for the three and nine months ended September 2015, exclude \$59.8 million and \$80.1 million, respectively, of integration and transaction costs related to the BNS acquisition and \$30.5 million of additional cost of goods sold related to the inventory mark up included in the purchase price allocation as these costs are nonrecurring to the Company.

Airvana

On October 1, 2015, the Company acquired the assets and assumed certain liabilities of Airvana LP (Airvana), a provider of small cell solutions for wireless networks. The Company paid \$45.1 million (\$44.5 million net of cash acquired), including \$1.0 million that was paid during the three months ended September 30, 2016. Airvana provides 4G LTE and 3G small cell solutions that enable communication and access to information and entertainment in challenging and high-value environments, such as office buildings and public venues. Net sales of Airvana products reflected in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) were \$4.1 million and \$10.4 million for the three and nine months ended September 30, 2016, respectively, and are reported in the CMS segment.

The allocation of the purchase price, based on estimates of the fair values of assets acquired and liabilities assumed, is as follows (in millions):

	Estimated Fair Value
Cash and cash equivalents	\$ 0.6
Accounts receivable	4.2
Other assets	3.8
Property, plant and equipment	2.5
Goodwill	20.4
Identifiable intangible assets	19.1
Less: Liabilities assumed	(5.5)
Net acquisition cost	\$ 45.1

The goodwill arising from the purchase price allocation of the Airvana acquisition is believed to result from the company's reputation in the marketplace and assembled workforce and is expected to be deductible for income tax purposes.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

3. GOODWILL

As a result of the change in segments, goodwill was reallocated from the previous segments to the new segments. The following table presents goodwill after the reallocation to the new reportable segments (in millions):

	CCS	CMS	Total
Goodwill, gross, as of December 31, 2015	\$1,986.6	\$899.7	\$2,886.3
Adjustments to preliminary purchase price	107.7	4.4	112.1
Foreign exchange	16.4	(0.6)	15.8
Goodwill, gross, as of September 30, 2016	2,110.7	903.5	3,014.2
Accumulated impairment charges as of December 31, 2015	(36.2)	(159.5)	(195.7)
Impairment charges	(15.3)	—	(15.3)
Accumulated impairment charges as of September 30, 2016	(51.5)	(159.5)	(211.0)
Goodwill, net, as of September 30, 2016	\$2,059.2	\$744.0	\$2,803.2

4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Inventories

	September 30, 2016	December 31, 2015
Raw materials	\$ 126,094	\$ 114,329
Work in process	136,219	131,030
Finished goods	213,366	196,456
	\$ 475,679	\$ 441,815

Investments

The Company owns shares of Hydrogenics Corporation (Hydrogenics), a publicly traded company that supplies hydrogen generators and hydrogen-based power modules and fuel cells for various uses. These shares are accounted for as available-for-sale securities and are carried at fair value with changes in fair value recorded, net of tax, in other comprehensive income (loss). The Company also has a \$15.0 million non-controlling interest (cost method investment) in Kaia Corporation, a developer of photonic integrated circuit products. Investments are recorded in other noncurrent assets on the Condensed Consolidated Balance Sheets.

The following table presents information related to the Company's investment in Hydrogenics:

	September 30, December 31,	
	2016	2015
Shares owned	1,184	1,332
Cost basis	\$ 887	\$ 997
Fair value	\$ 7,771	\$ 11,683
Pretax unrealized gain in accumulated other comprehensive		
income (loss)	\$ 6,884	\$ 10,685

The following table provides information related to the sale of shares in Hydrogenics:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Shares sold	—	—	148	202
Proceeds received	\$ —	\$ —	\$ 1,291	\$ 2,817
Pretax gain realized	\$ —	\$ —	\$ 1,181	\$ 2,666

Gains on the sale of Hydrogenics shares are recorded in other expense, net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Other Accrued Liabilities

	September 30, December 31,	
	2016	2015
Compensation and employee benefit liabilities	\$ 156,403	\$ 108,852
Deferred revenue	38,858	23,811
Product warranty accrual	21,777	17,964
Accrued interest	54,300	12,468
Restructuring reserve	20,887	24,480
Income taxes payable	85,877	38,417
Value-added taxes payable	15,244	24,880
Accrued professional fees	10,010	14,303
Other	94,421	106,568
	\$ 497,777	\$ 371,743

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Foreign currency translation				
Balance, beginning of period	\$(160,927)	\$(98,333)	\$(160,620)	\$(80,483)
Other comprehensive income (loss)	8,604	(22,835)	7,991	(40,563)
Amounts reclassified from AOCL	6	—	312	(122)
Balance, end of period	\$(152,317)	\$(121,168)	\$(152,317)	\$(121,168)
Pension and other postretirement benefit activity				
Balance, beginning of period	\$(20,702)	\$(18,130)	\$(17,567)	\$(14,957)
Other comprehensive income (loss)	345	—	(1,385)	—
Amounts reclassified from AOCL	(721)	(1,566)	(2,126)	(4,739)
Balance, end of period	\$(21,078)	\$(19,696)	\$(21,078)	\$(19,696)
Available-for-sale securities				

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Balance, beginning of period	\$4,375	\$7,756	\$6,509	\$11,892
Other comprehensive loss	(257)	(1,737)	(1,652)	(4,225)
Amounts reclassified from AOCI	—	—	(739)	(1,648)
Balance, end of period	\$4,118	\$6,019	\$4,118	\$6,019
Net AOCL, end of period	\$(169,277)	\$(134,845)	\$(169,277)	\$(134,845)

Amounts reclassified from net AOCL related to foreign currency translation and available-for-sale securities are recorded in other expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Pension and other postretirement benefit plan amounts reclassified from net AOCL are included in the computation of net periodic benefit 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 (Loss).

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Cash Flow Information

	Nine Months Ended	
	September 30,	
	2016	2015
Cash paid during the period for:		
Income taxes, net of refunds	\$ 73,752	\$ 95,909
Interest	\$ 157,024	\$ 82,526

5. FINANCING

	September 30, 2016	December 31, 2015
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
Senior PIK toggle notes due June 2020	—	536,630
4.375% senior secured notes due June 2020	500,000	500,000
Senior secured term loan due December 2022	1,237,500	1,246,875
Senior secured term loan due January 2018	261,875	261,875
Senior secured revolving credit facility expires May 2020	—	—
Other	—	19
Total face value of debt	\$ 4,799,375	\$ 5,345,399
Less: Original issue discount, net of amortization	(3,484)	(4,234)
Less: Debt issuance costs, net of amortization	(81,905)	(97,514)
Less: Current portion	(12,500)	(12,520)
Total long-term debt	\$ 4,701,486	\$ 5,231,131

See Note 6 in the Notes to Consolidated Financial Statements in the 2015 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 6.625%/7.375% senior payment-in-kind toggle notes (the senior PIK toggle notes), the 4.375% senior secured notes (the 2020 Notes) and the senior secured term loans and credit facility.

Senior PIK Toggle Notes

In June 2016, the Company voluntarily redeemed \$300.0 million of the senior PIK toggle notes. In August 2016, the Company voluntarily redeemed the remaining \$236.6 million of the senior PIK toggle notes. The redemptions resulted in charges of \$7.8 million and \$17.7 million for the three and nine months ended September 30, 2016, respectively, which were reflected in other expense, net. In connection with the redemptions, \$2.6 million and \$6.1 million of debt issuance costs were written off and included in interest expense for the three and nine months ended September 30, 2016, respectively.

Senior Secured Credit Facilities

During the three and nine months ended September 30, 2016, the Company repaid \$3.1 million and \$9.4 million, respectively, of its senior secured term loans. No portion of the senior secured term loans was reflected as a current portion of long-term debt as of September 30, 2016 related to the potentially required excess cash flow payment because the amount that may be payable in 2017, if any, cannot currently be reliably estimated. There was no excess cash flow payment required in 2016 related to 2015.

During the nine months ended September 30, 2016, the Company did not borrow under its revolving credit facility. As of September 30, 2016, the Company had availability of approximately \$430.9 million under the asset-based revolving credit facility, after giving effect to borrowing base limitations and outstanding letters of credit.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Other Matters

The Company's non-guarantor subsidiaries held approximately \$2,369 million, or 32%, of total assets and approximately \$603 million, or 10%, of total liabilities as of September 30, 2016 and accounted for approximately \$526 million, or 41%, and \$1,586 million, or 42%, of net sales for the three and nine months ended September 30, 2016, respectively. As of December 31, 2015, the non-guarantor subsidiaries held approximately \$2,848 million, or 38%, of total assets and approximately \$468 million, or 8%, of total liabilities. For the three and nine months ended September 30, 2015, the non-guarantor subsidiaries accounted for approximately \$420 million, or 43%, and \$1,173 million, or 44%, of net sales, respectively. All amounts presented exclude intercompany balances.

CommScope, Inc., a direct wholly owned subsidiary of the Company, is a guarantor of the 2025 Notes and the issuer of each of the 2024 Notes, the 2021 Notes and the 2020 Notes. The balance sheet and income statement amounts for CommScope, Inc. are substantially identical to those of the Company other than interest expense, other expense and total debt. Interest expense for CommScope, Inc. does not reflect the interest expense incurred in connection with the senior PIK toggle notes. For the three months ended September 30, 2016 and 2015, interest expense related to the senior PIK toggle notes was \$5.2 million (\$3.3 million net of tax) and \$9.5 million (\$6.1 million net of tax), respectively. For the nine month periods ended September 30, 2016 and 2015, interest expense related to the senior PIK toggle notes was \$25.6 million (\$16.2 million net of tax) and \$28.5 million (\$18.2 million net of tax), respectively. For the three and nine months ended September 30, 2016, other expense, net included redemption premium charges of \$7.8 million (\$5.0 million net of tax) and \$17.7 million (\$11.3 million net of tax), respectively. Total debt for CommScope, Inc. and its subsidiaries as of September 30, 2016 was \$4,714.0 million.

The weighted average effective interest rate on outstanding borrowings, including the amortization of debt issuance costs and original issue discount, was 5.32% and 5.50% at September 30, 2016 and December 31, 2015, respectively.

6. DERIVATIVES AND HEDGING ACTIVITIES

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 September 30, 2016, the Company had foreign exchange contracts outstanding with maturities of up to seven months and aggregate notional values of \$292 million (based on exchange rates as of September 30, 2016). Unrealized gains and losses resulting from these contracts are recognized in other 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.

The following table presents the balance sheet location and fair value of the Company's derivatives:

		Fair Value of Asset (Liability)	
		September 30,	December 31,
	Balance Sheet Location	2016	2015
Foreign currency contracts	Prepaid expenses and other current assets	\$673	\$ 1,051
Foreign currency contracts	Other accrued liabilities	(1,398)	(5,945)
Total derivatives not designated as			
hedging instruments		\$(725)	\$ (4,894)

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

		Loss
Foreign Currency Forward Contracts	Location of Loss	Recognized
Three Months Ended September 30, 2016	Other expense, net	\$ (262)
Three Months Ended September 30, 2015	Other expense, net	\$ (5,871)
Nine Months Ended September 30, 2016	Other expense, net	\$ (7,051)
Nine Months Ended September 30, 2015	Other expense, net	\$ (7,035)

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 September 30, 2016 and December 31, 2015 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 September 30, 2016 and December 31, 2015, are as follows:

	September 30, 2016		December 31, 2015		Valuation Inputs
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Assets:					
Available-for-sale securities	\$7,771	\$7,771	\$11,683	\$11,683	Level 1
Foreign currency contracts	673	673	1,051	1,051	Level 2
Liabilities:					
6.00% senior notes due 2025	1,500,000	1,599,450	1,500,000	1,430,700	Level 2
5.50% senior notes due 2024	650,000	680,875	650,000	617,500	Level 2
5.00% senior notes due 2021	650,000	672,750	650,000	619,125	Level 2
Senior PIK toggle notes due 2020	-	-	536,630	544,679	Level 2
4.375% senior secured notes due 2020	500,000	516,250	500,000	500,000	Level 2
Senior secured term loan due 2022, at par	1,237,500	1,252,969	1,246,875	1,243,727	Level 2
Senior secured term loan due 2018, at par	261,875	263,021	261,875	260,068	Level 2
Foreign currency contracts	1,398	1,398	5,945	5,945	Level 2

Non-Recurring Fair Value Measurements

During the three months ended September 30, 2016, the Company recorded a pretax intangible impairment charge of \$7.4 million as described in Note 1. The valuation supporting the impairment charge is based on Level 3 valuation inputs.

In the first quarter of 2016, the Company recorded a pretax goodwill impairment charge of \$15.3 million due to the change in reportable segments as described in Note 1. The valuation supporting the goodwill impairment charge is based on Level 3 valuation inputs.

These fair value estimates are based on pertinent information available to management as of the date made. 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.

8. SEGMENTS AND GEOGRAPHIC INFORMATION

As of January 1, 2016, the Company reorganized its internal management and reporting structure as part of the integration of the BNS acquisition. The reorganization changed the information regularly reviewed by the Company's chief operating decision maker for purposes of allocating resources and assessing performance. As a result, the Company is reporting financial performance for the 2016 fiscal year based on its new operating segments: CommScope Connectivity Solutions (CCS) and CommScope Mobility Solutions (CMS). Both CCS and CMS represent non-aggregated reportable operating segments. All prior period amounts below have been recast to reflect these operating segment changes.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The 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 applications, intelligent infrastructure software, network rack and cabinet enclosures, patch cords and panels, network design services, central office connectivity and equipment and headend solutions for the network core. Outdoor network solutions are found in access networks and include coaxial cabling and fiber-optic connectivity solutions, which include a robust portfolio of fiber optic connectors and fiber management systems.

The CMS segment provides radio frequency (RF) wireless network connectivity solutions and DAS and small cell solutions to enable carriers' 2G, 3G and 4G networks. These solutions enable wireless operators to deploy macro cell site, metro cell site, DAS and small cell solutions to meet coverage and capacity requirements. 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 consist of specialized antennas, filters/combiners, backhaul solutions, intra-system cabling and power distribution, all minimized to fit an urban environment. The DAS and small cell solutions allow wireless operators to increase spectral efficiency and thereby extend and enhance cellular coverage and capacity in challenging network conditions such as commercial buildings, urban areas, stadiums and transportation systems.

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

	September 30, 2016	December 31, 2015
Identifiable segment-related assets:		
CCS	\$ 4,729.1	\$ 4,642.0
CMS	2,127.7	2,258.8
Total identifiable segment-related assets	6,856.8	6,900.8
Reconciliation to total assets:		
Cash and cash equivalents	517.3	562.9
Deferred income tax assets	37.5	38.9
Total assets	\$ 7,411.6	\$ 7,502.6

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table provides net sales, operating income (loss), depreciation and amortization by reportable segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales:				
CCS	\$819.2	\$489.0	\$2,284.2	\$1,170.2
CMS	474.7	483.6	1,460.5	1,495.1
Consolidated net sales	\$1,293.9	\$972.6	\$3,744.7	\$2,665.3
Operating income (loss):				
CCS (1)	\$104.8	\$(33.9)	\$247.8	\$34.0
CMS (2)	75.9	(8.6)	207.5	126.0
Consolidated operating income (loss)	\$180.7	\$(42.5)	\$455.3	\$160.0
Depreciation:				
CCS	\$13.7	\$8.0	\$40.3	\$16.9
CMS	6.5	7.6	19.9	21.8
Consolidated depreciation	\$20.2	\$15.6	\$60.2	\$38.7
Amortization (3):				
CCS	\$49.4	\$30.8	\$148.3	\$74.1
CMS	25.2	23.5	76.0	69.6
Consolidated amortization	\$74.6	\$54.3	\$224.3	\$143.7

(1) Operating income (loss) for the three months ended September 30, 2016 and 2015 included impairment charges of \$7.4 million and \$10.9 million, respectively. Impairment charges for the nine months ended September 30, 2016 and 2015 were \$22.7 million and \$10.9 million, respectively. Operating income (loss) for the three months ended September 30, 2016 and 2015 included integration and transaction costs of \$14.6 million and \$57.1 million, respectively. Integration and transaction costs for the nine months ended September 30, 2016 and 2015 were \$42.1 million and \$68.6 million, respectively. Operating income (loss) for the three months ended September 30, 2016 and 2015 included restructuring charges of \$8.4 million and \$4.1 million, respectively. Restructuring charges for the nine months ended September 30, 2016 and 2015 were \$16.1 million and \$5.2 million, respectively. Operating loss for the three months ended September 30, 2015 included purchase accounting charges related to the mark-up on inventory of \$29.2 million. Purchase accounting charges for the nine months ended September 30, 2016 and 2015 were \$0.6 million and \$29.3 million, respectively.

(2) Operating income (loss) for the three and nine months ended September 30, 2015 included impairment charges of \$74.4 million. Operating income (loss) for the three months ended September 30, 2016 and 2015 included

integration and transaction costs of \$0.2 million and \$3.8 million, respectively. Integration and transaction costs for the nine months ended September 30, 2016 and 2015 were \$2.9 million and \$13.5 million, respectively. Operating income (loss) for the three months ended September 30, 2016 and 2015 included restructuring charges of \$2.5 million and \$2.8 million, respectively. Restructuring charges for the nine months ended September 30, 2016 and 2015 were \$8.4 million and \$5.4 million, respectively.

(3) Excludes amortization of debt issuance costs and original issue discount.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Sales to customers located outside of the U.S. comprised 45.0% and 46.3% of total net sales for the three and nine months ended September 30, 2016, respectively, compared to 48.9% and 50.2% for the three and nine months ended September 30, 2015, respectively. Sales by geographic region, based on the destination of product shipments, were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	\$712.2	\$497.3	\$2,011.2	\$1,326.9
Europe, Middle East and Africa	233.9	196.4	693.4	533.1
Asia Pacific	245.9	187.0	736.2	537.4
Central and Latin America	69.2	65.6	212.4	197.3
Canada	32.7	26.3	91.5	70.6
Consolidated net sales	\$1,293.9	\$972.6	\$3,744.7	\$2,665.3

9. RESTRUCTURING COSTS

Prior to the acquisition of the BNS business, the Company initiated restructuring actions to realign and lower its cost structure primarily through workforce reductions and other cost reduction initiatives, including the cessation of manufacturing operations at various facilities. Production capacity from these facilities has been shifted to other existing facilities or unaffiliated suppliers. These actions are referred to as cost alignment restructuring actions. Following the acquisition of BNS in 2015, the Company initiated a series of restructuring actions to integrate the BNS operations (BNS integration restructuring actions) to achieve cost synergies. All charges related to these restructuring actions are reported in restructuring costs, net.

The Company's net pretax restructuring charges, by segment, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
CCS	\$8,362	\$4,108	\$16,062	\$5,185
CMS	2,464	2,760	8,441	5,448
Total	\$10,826	\$6,868	\$24,503	\$10,633

Employee-related costs include the expected severance costs and related benefits as well as one-time severance benefits that are accrued over the remaining period employees are required to work in order to receive such benefits.

Lease termination costs relate to the discounted cost of unused leased facilities, net of anticipated sub-rental income.

Fixed asset related costs include non-cash impairments or fixed asset disposals associated with restructuring actions in addition to the cash costs to uninstall, pack, ship and reinstall manufacturing equipment and the costs to prepare the receiving facility to accommodate relocated equipment. These costs are expensed as incurred.

CommScope Holding Company, Inc.

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(In thousands, unless otherwise noted)

The activity within the liability established for the cost alignment restructuring actions was as follows:

	Employee- Related Costs	Lease Termination Costs	Fixed Asset Related Costs	Total
Balance as of June 30, 2016	\$ 452	\$ 6,496	\$ —	\$6,948
Additional charge recorded	126	48	—	174
Cash paid	(129)	(433)	—	(562)
Foreign exchange and other non-cash items	2	—	—	2
Balance as of September 30, 2016	\$ 451	\$ 6,111	\$ —	\$6,562
Balance as of December 31, 2015	\$ 1,005	\$ 7,370	\$ —	\$8,375
Additional charge recorded	100	223	(203)	120
Cash paid	(681)	(1,482)	—	(2,163)
Consideration received	—	—	3,656	3,656
Foreign exchange and other non-cash items	27	—	(3,453)	(3,426)
Balance as of September 30, 2016	\$ 451	\$ 6,111	\$ —	\$6,562

The Company has recognized restructuring charges of \$89.0 million since January 2011 for cost alignment restructuring actions. Additional pretax costs of \$0.5 million to \$1.0 million are expected to be incurred to complete these previously announced initiatives. Cash payments of \$0.5 million to \$1.0 million are expected during the remainder of 2016 with additional payments of \$6.5 million to \$7.0 million between 2017 and 2022.

The activity within the liability established for the BNS integration restructuring actions was as follows:

	Employee- Related Costs	Lease Termination Costs	Fixed Asset Related Costs	Total
Balance as of June 30, 2016	\$ 21,257	\$ —	\$ —	\$21,257
Additional charge recorded	10,900	249	(497)	10,652
Cash paid	(8,517)	—	(856)	(9,373)
Foreign exchange and other non-cash items	(21)	—	1,353	1,332
Balance as of September 30, 2016	\$ 23,619	\$ 249	\$ —	\$23,868

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Balance as of December 31, 2015	\$ 28,714	\$ —	\$ —	\$28,714
Additional charge recorded	19,923	249	4,211	24,383
Cash paid	(24,852)	—	(2,600)	(27,452)
Foreign exchange and other non-cash items	(166)	—	(1,611)	(1,777)
Balance as of September 30, 2016	\$ 23,619	\$ 249	\$ —	\$23,868

The BNS integration actions include the announced closure or reduction in activities at various U.S. and international facilities as well as headcount reductions in sales, marketing and administrative functions. The Company has recognized restructuring charges of \$48.2 million since the acquisition date for BNS integration actions. Additional pretax costs of \$0.1 million to \$0.5 million are expected to be incurred to complete the previously announced BNS integration initiatives. Cash payments of \$9.0 million to \$10.0 million are expected during the remainder of 2016 with additional payments of \$14.0 million to \$15.0 million between 2017 and 2019. Additional restructuring charges related to BNS restructuring actions are expected and the resulting amounts may be material.

Restructuring reserves related to all actions were included in the Company's Condensed Consolidated Balance Sheets as follows:

	September 30,	December 31,
	2016	2015
Other accrued liabilities	\$ 20,887	\$ 24,480
Other noncurrent liabilities	9,543	12,609
Total liability	\$ 30,430	\$ 37,089

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Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

As a result of restructuring and consolidation actions, the Company owns unutilized real estate at various facilities in the U.S. and internationally. The Company is attempting to sell or lease this unutilized space. Additional impairment charges may be incurred related to these or other excess assets.

10. EMPLOYEE BENEFIT PLANS

	Pension Benefits				Other Postretirement Benefits	
	Three Months Ended				Three Months Ended	
	September 30,				September 30,	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2016	2015	2016	2015	2016	2015
Service cost	\$—	\$—	\$821	\$429	\$ 1	\$ 7
Interest cost	1,620	1,647	1,189	1,480	135	161
Recognized actuarial loss (gain)	236	191	26	13	(346)	(283)
Amortization of prior service credit	—	—	—	—	(1,055)	(2,457)
Expected return on plan assets	(1,750)	(1,882)	(2,146)	(1,932)	—	—
Net periodic benefit cost (income)	\$106	\$(44)	\$(110)	\$(10)	\$(1,265)	\$(2,572)

	Nine Months Ended				Nine Months Ended	
	September 30,				September 30,	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2016	2015	2016	2015	2016	2015
Service cost	\$—	\$—	\$4,013	\$645	\$ 3	\$ 21
Interest cost	4,860	4,879	4,685	4,131	405	483
Recognized actuarial loss (gain)	708	506	82	39	(1,038)	(849)
Amortization of prior service credit	—	—	—	—	(3,165)	(7,372)
Expected return on plan assets	(5,250)	(5,643)	(6,726)	(5,135)	—	—
Net periodic benefit cost (income)	\$318	\$(258)	\$2,054	\$(320)	\$(3,795)	\$(7,717)

The Company contributed \$3.4 million and \$7.9 million to the defined benefit pension plans and postretirement benefit plans during the three and nine months ended September 30, 2016, respectively. During the remainder of 2016, the Company anticipates making additional contributions of approximately \$0.8 million to the defined benefit plans.

11. STOCKHOLDERS' EQUITY

Equity-Based Compensation Plans

As of September 30, 2016, \$63.3 million of unrecognized compensation costs related to unvested stock options, restricted stock unit awards (RSUs) and performance share units (PSUs) are expected to be recognized over a remaining weighted average period of 1.5 years. There were no significant capitalized equity-based compensation costs at September 30, 2016.

In March 2016, the Company modified certain equity-based compensation awards to extend the exercise period in the case of retirement, death or disability. This modification resulted in a change in the fair value of certain stock option awards. The incremental compensation cost that resulted from the modification was \$1.6 million which was fully recognized at the time of the modification.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table shows a summary of the equity-based compensation expense included in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Selling, general and administrative	\$6,409	\$4,324	\$20,306	\$16,038
Cost of sales	1,104	761	3,551	2,821
Research and development	862	592	2,764	2,196
Total equity-based compensation expense	\$8,375	\$5,677	\$26,621	\$21,055

Stock Options

Stock options are awards that allow the recipient to purchase shares of the Company's common stock at a fixed price. Stock options are granted at an exercise price equal to the Company's stock price at the date of grant. These awards generally vest over one to five years following the grant date and have a contractual term of ten years.

The following table summarizes the stock option activity (in thousands, except per share amounts):

	Weighted			
	Average Option		Weighted	
	Exercise Price	Average Remaining	Aggregate	
	Per Share	Contractual Term	Intrinsic Value	
	Shares	in Years		
Options outstanding as of June 30, 2016	6,625	\$ 10.10		
Granted	11	\$ 29.59		
Exercised	(234)	\$ 7.03		
Forfeited	(34)	\$ 21.07		
Options outstanding as of September 30, 2016	6,368	\$ 10.19	5.0	\$ 127,299
Options outstanding as of December 31, 2015	7,458	\$ 8.81		
Granted	385	\$ 25.08		
Exercised	(1,246)	\$ 6.93		
Forfeited	(229)	\$ 8.02		
Options outstanding as of September 30, 2016	6,368	\$ 10.19	5.0	\$ 127,299

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Options exercisable at September 30, 2016	5,497	\$ 7.49	4.4	\$ 124,378
Options expected to vest at September 30, 2016	868	\$ 27.28	8.6	\$ 2,910

The exercise prices of outstanding options at September 30, 2016 were in the following ranges:

	Options Outstanding			Options Exercisable	
	Weighted Average				
	Remaining		Weighted		Weighted
	Shares	Contractual Life	Average Exercise	Shares	Average Exercise
Range of Exercise Prices (in thousands)			Price Per Share	(in thousands)	Price Per Share
\$2.96 to \$5.35	380	2.5			