CommScope Holding Company, Inc.
Form 10-Q
July 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

o 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 incorporation or organization)	(I.R.S. Employer Identification No.)

1100 CommScope Place, SE

Hickory, North Carolina

(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 x No o

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 x No o

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

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

As of July 14, 2016 there were 192,638,390 shares of Common Stock outstanding.

CommScope Holding Company, Inc.

Form 10-Q

June 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

(Unaudited - In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$1,306,788	$867,290	$2,450,767	$1,692,690
Operating costs and expenses:				
Cost of sales	753,029	552,595	1,449,917	1,084,791
Selling, general and administrative	234,333	130,797	443,530	256,468
Research and development	51,934	27,982	104,124	55,718
Amortization of purchased intangible assets	76,015	44,624	149,631	89,410
Restructuring costs, net	7,605	1,894	13,677	3,765
Asset impairments	—	—	15,293	—
Total operating costs and expenses	1,122,916	757,892	2,176,172	1,490,152
Operating income	183,872	109,398	274,595	202,538
Other income (expense), net	(14,653)	86	(14,352)	2,713
Interest expense	(74,113)	(49,036)	(146,675)	(85,365)
Interest income	1,148	1,031	3,727	2,060
Income before income taxes	96,254	61,479	117,295	121,946
Income tax expense	(34,293)	(15,887)	(42,754)	(36,878)
Net income	$61,961	$45,592	$74,541	$85,068
Earnings per share:				
Basic	$0.32	$0.24	$0.39	$0.45
Diluted	$0.32	$0.24	$0.38	$0.44
Weighted average shares outstanding:				
Basic	192,241	189,682	191,996	189,084
Diluted	196,073	194,004	195,815	193,570
Comprehensive income:				
Net income	$61,961	$45,592	$74,541	$85,068
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(46,591)	11,638	(307)	(17,850)
Pension and other postretirement benefit activity	(2,404)	(1,586)	(3,135)	(3,173)
Available-for-sale securities	(1,411)	(1,147)	(2,134)	(4,136)
Total other comprehensive income (loss), net of tax	(50,406)	8,905	(5,576)	(25,159)
Total comprehensive income	$11,555	$54,497	$68,965	$59,909

See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands, except share amounts)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$516,043	$ 562,884
Accounts receivale, less allowance for doubtful accounts of $16,365 and $19,392, respectively	993,013	833,041
Inventories, net	465,685	441,815
Prepaid expenses and other current assets	128,756	166,900
Total current assets	2,103,497	2,004,640
Property, plant and equipment, net of accumulated depreciation of $275,457 and $243,806, respectively	505,432	528,706
Goodwill	2,797,234	2,690,636
Other intangible assets, net	1,982,792	2,147,483
Other noncurrent assets	125,593	131,166
Total assets	$7,514,548	$ 7,502,631
Liabilities and Stockholders' Equity		
Accounts payable	$456,830	$ 300,829
Other accrued liabilities	400,540	371,743
Current portion of long-term debt	12,500	12,520
Total current liabilities	869,870	685,092
Long-term debt	4,935,355	5,231,131
Deferred income taxes	227,060	202,487
Pension and other postretirement benefit liabilities	38,633	37,102
Other noncurrent liabilities	123,425	124,099
Total liabilities	6,194,343	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: 192,618,113 and 191,368,727, respectively	1,937	1,923
Additional paid-in capital	2,247,504	2,216,202
Retained earnings (accumulated deficit)	(737,853)	(812,394)
Accumulated other comprehensive loss	(177,254)	(171,678)
Treasury stock, at cost: 1,096,926 shares and 986,222 shares, respectively	(14,129)	(11,333)
Total stockholders' equity	1,320,205	1,222,720
Total liabilities and stockholders' equity	$7,514,548	$ 7,502,631

See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited - In thousands)

	Six Months Ended June 30,	
	2016	2015
Operating Activities:		
Net income	$74,541	$85,068
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation and amortization	200,497	125,723
Equity-based compensation	18,246	15,378
Deferred income taxes	(48,319)	(34,129)
Asset impairments	15,293	—
Excess tax benefits from equity-based compensation	(6,728)	(14,164)
Changes in assets and liabilities:		
Accounts receivable	(137,532)	(118,257)
Inventories	(18,386)	9,038
Prepaid expenses and other assets	10,139	5,877
Accounts payable and other liabilities	164,855	(2,269)
Other	(4,010)	1,001
Net cash generated by operating activities	268,596	73,266
Investing Activities:		
Additions to property, plant and equipment	(32,184)	(24,081)
Proceeds from sale of property, plant and equipment	3,740	173
Net purchase price adjustment	6,263	—
Acquisition funds held in escrow	—	(2,746,875)
Other	1,656	3,097
Net cash used in investing activities	(20,525)	(2,767,686)
Financing Activities:		
Long-term debt repaid	(306,270)	(502,517)
Long-term debt proceeds	—	3,246,875
Long-term debt financing costs	—	(9,025)
Proceeds from the issuance of common shares under equity-based compensation plans	6,991	16,951
Excess tax benefits from equity-based compensation	6,728	14,164
Tax withholding payments for vested equity-based compensation awards	(2,796)	—
Net cash generated by (used in) financing activities	(295,347)	2,766,448
Effect of exchange rate changes on cash and cash equivalents	435	(8,390)
Change in cash and cash equivalents	(46,841)	63,638
Cash and cash equivalents, beginning of period	562,884	729,321
Cash and cash equivalents, end of period	$516,043	$792,959

See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited - In thousands, except share amounts)

	Six Months Ended June 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	1,360,090	2,122,229
Shares surrendered under equity-based compensation plans	(110,704)	—
Balance at end of period	192,618,113	189,953,618
Common stock:		
Balance at beginning of period	$1,923	$1,888
Issuance of shares under equity-based compensation plans	14	21
Balance at end of period	$1,937	$1,909
Additional paid-in capital:		
Balance at beginning of period	$2,216,202	$2,141,433
Issuance of shares under equity-based compensation plans	6,977	16,930
Equity-based compensation	18,135	11,714
Tax benefit from shares issued under equity-based compensation plans	6,190	14,079
Balance at end of period	$2,247,504	$2,184,156
Retained earnings (accumulated deficit):		
Balance at beginning of period	$(812,394)	$(741,519)
Net income	74,541	85,068
Balance at end of period	$(737,853)	$(656,451)
Accumulated other comprehensive loss:		
Balance at beginning of period	$(171,678)	$(83,548)
Other comprehensive loss, net of tax	(5,576)	(25,159)
Balance at end of period	$(177,254)	$(108,707)
Treasury stock, at cost:		
Balance at beginning of period	$(11,333)	$(10,635)
Net shares surrendered under equity-based compensation plans	(2,796)	—
Balance at end of period	$(14,129)	$(10,635)
Total stockholders' equity	$1,320,205	$1,410,272

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 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. 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 June 30, 2016, the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016 and 2015, and the Condensed Consolidated Statements Cash Flows and Stockholders' Equity for the six months ended June 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 results of operations that are reported in the Company's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2016 are for the fiscal periods March 26 through June 24, 2016 and December 26, 2015 through June 24, 2016, respectively.

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 six months ended June 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 six months ended June 30, 2016. Net sales to Anixter accounted for 13% of the Company’s total net sales during the three and six months ended June 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 six months ended June 30, 2016 or 2015. No direct customer accounted for more than 10% of the Company’s accounts receivable as of June 30, 2016.

As of June 30, 2016, funds affiliated with The Carlyle Group (Carlyle) owned 21.4% 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Product warranty accrual, beginning of period	$17,689	$15,366	$17,964	$17,054
Provision for warranty claims	2,468	2,372	4,519	3,914
Warranty claims paid	(1,801)	(2,544)	(4,127)	(5,774)
Product warranty accrual, end of period	$18,356	$15,194	$18,356	$15,194

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 preliminary 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.

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 material asset impairments identified during the three or six months ended June 30, 2016 or 2015.

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% primarily due to the provision for state income taxes as well as losses in certain jurisdictions where the Company

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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 impact of earnings in foreign jurisdictions that the Company does not plan to repatriate. These earnings are generally taxed at rates lower than the U.S. statutory rate.

The effective income tax rate of 25.8% and 30.2% for the three and six months ended June 30, 2015, respectively, was lower than the statutory rate of 35% primarily due to the impact of earnings in foreign jurisdictions that the Company does not plan to repatriate. Such earnings are generally taxed at rates lower than the U.S. statutory rate. In addition, the effective income tax rate for the three and six months ended June 30, 2015 was also affected by a reduction in tax expense related to the expiration of the statute of limitations related to various uncertain tax positions as well as an unfavorable rate impact resulting from the provision for state income taxes and 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 dilutive effect of potential common shares outstanding during the period using the treasury stock method. Dilutive potential 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 (1.7 million shares and 1.6 million shares for the three and six months ended June 30, 2016, respectively, and 1.8 million shares and 1.5 million shares for the three and six months ended June 30, 2015, respectively).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income for basic and diluted earnings per share	$61,961	$45,592	$74,541	$85,068
Denominator:				
Weighted average shares outstanding - basic	192,241	189,682	191,996	189,084
Dilutive effect of equity-based awards	3,832	4,322	3,819	4,486
Weighted average common shares outstanding - diluted	196,073	194,004	195,815	193,570
Earnings per share:				
Basic	$0.32	$0.24	$0.39	$0.45

Diluted	$0.32	$0.24	$0.38	$0.44

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 share-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 is evaluating the impact of this new guidance on the Company's consolidated financial statements.

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(In thousands, unless otherwise noted)

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 application permitted. The adoption of the new guidance is not expected to have 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 issued ASU No. 2015-04, Revenue from Contracts with Customers: Deferral of Effective Date, which defers 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 and early adoption is permitted as of January 1, 2017 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 and is currently determining its adoption approach and assessing the impact on the consolidated financial statements.

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 $3,014.9 million ($2,951.2 million net of cash acquired). As of June 30, 2016, the Company had a net receivable of $0.9 million from TE Connectivity for remaining purchase price adjustments. Net sales of $461.8 million and $844.1 million related to the acquired business are reflected in the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016, respectively, and are primarily reported in the CCS segment.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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 any 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 (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	(1.7)	251.2
Inventories	266.4	(10.7)	255.7
Other current assets	40.0	(4.0)	36.0
Property, plant and equipment	247.6	-	247.6
Goodwill	1,242.8	180.0	1,422.8
Identifiable intangible assets	1,150.0	(63.5)	1,086.5
Other noncurrent assets	22.3	(1.2)	21.1
Current liabilities	(224.2)	(13.5)	(237.7)
Noncurrent pension liabilities	(30.5)	10.3	(20.2)
Other noncurrent liabilities	(27.1)	(85.6)	(112.7)
Net acquisition cost	$ 3,003.9	$ 10.1	$ 3,014.0

For the three months ended June 30, 2016, the Company recorded $1.9 million of pretax expense as a result of the measurement period adjustments. If the information relating to the valuation of certain assets and liabilities was applied at the original acquisition date, $0.9 million would have been recorded during the year ended December 31, 2015 and $1.0 million would have been recorded during the three months ended March 31, 2016. Pretax expense as a result of measurement period adjustments during the six months ended June 30, 2016 was $1.4 million that would have been recorded during the year ended December 31, 2015, had the valuation information been applied at the original acquisition date. The pretax expense in the three and six months ended June 30, 2016 primarily relates to amortization of purchased intangible assets.

The goodwill arising from the preliminary 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. The Company is finalizing the valuation of identifiable intangible assets; property, plant and equipment; pension liabilities; deferred taxes; and other assets and liabilities. As additional information is obtained, adjustments will be made to the purchase price allocation. The estimated fair values may change as the Company completes its valuation analyses and purchase price allocation.

There were certain foreign assets acquired and liabilities assumed in the BNS acquisition for which title has not yet transferred although the consideration was paid as part of the overall purchase price discussed above. The Company expects these transfers to be substantially completed during 2016 and does not anticipate any significant risks to executing such transfers. In the interim, TE Connectivity will continue to conduct the business operations, as directed by and for the sole benefit or detriment of CommScope. For the three and six months ended June 30, 2016, net sales related to the BNS operations that have not formally transferred were included in the Company's consolidated net sales and represented approximately 1% and 2%, respectively, of the Company's net sales. As of June 30, 2016, the investment in these BNS operations was reported in other noncurrent assets on the Condensed Consolidated Balance Sheet. The total assets related to these operations represented less than 1% of the Company's total assets as of June 30, 2016.

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 six months ended June 30, 2015 as though the BNS acquisition had been completed as of January 1, 2014 (in millions, except per share amounts):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Revenue	$1,338.3	$2,588.6
Net income	70.3	$105.3
Net income per diluted share	0.36	0.54

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.

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 $44.1 million ($43.5 million net of cash acquired) and recorded a liability for $1.0 million for the remaining payment due. 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, public venues and homes. Net sales of Airvana products reflected in the Condensed Consolidated Statements of Operations and Comprehensive Income were $3.6 million and $6.3 million for the three and six months ended June 30, 2016, respectively, and are reported in the CMS segment.

The preliminary 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.

As additional information is obtained, adjustments may be made to the preliminary purchase price allocation. The Company is still finalizing the estimated fair value of certain of the tangible and intangible assets acquired and liabilities assumed.

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	104.9	4.3	109.2
Foreign exchange	13.6	(0.9)	12.7
Goodwill, gross, as of June 30, 2016	2,105.1	903.1	3,008.2
Accumulated impairment charges as of January 1, 2016	(36.2)	(159.5)	(195.7)
Impairment charges	(15.3)	—	(15.3)
Accumulated impairment charges as of June 30, 2016	(51.5)	(159.5)	(211.0)
Goodwill, net, as of June 30, 2016	$2,053.6	$743.6	$2,797.2

4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Inventories

	June 30, 2016	December 31, 2015
Raw materials	$125,917	$ 114,329
Work in process	125,612	131,030
Finished goods	214,156	196,456
	$465,685	$ 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 million non-controlling interest (cost method investment) in Kaiam 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:

	June 30, 2016	December 31, 2015
Shares owned	1,184	1,332
Cost basis	$ 881	$ 997
Fair value	$ 8,173	$ 11,683
Pretax unrealized gain in accumulated other comprehensive income (loss)	$ 7,292	$ 10,685

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares sold	99	30	148	202
Proceeds received	$891	$324	$1,291	$2,817
Pretax gain realized	$811	$303	$1,175	$2,666

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

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Other Accrued Liabilities

	June 30, 2016	December 31, 2015
Compensation and employee benefit liabilities	$129,832	$ 108,852
Deferred revenue	27,980	23,811
Product warranty accrual	18,356	